Kepler Cheuvreux TRANSITION RESEARCH

360 Report

Inequality: An investor guide

Social & Business Ethics

7 April 2016

Inequality

What's it all about?

From the Occupy movement to Piketty's bestseller, *Capital*, inequality has become a pervasive economic theme since the financial crisis. In this report, we launch the Kepler Cheuvreux Inequality Footprint to highlight the risks to business and their influence on factors of socio-economic inequality. Our focus covers not just wealth inequality but also the material impacts from corporate misconduct, the facilitation of social mobility, sustainable supply chains, underserved product areas and emissions reduction which affect both shareholder value and levels of social and income disparity significantly. The cross-sector framework includes the consumer, banking, capital goods, telco, extractives and pharma sectors.

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ESG research team

Biographies at the end of the report

IMPORTANT. Please refer to the last page of this report for "Important disclosures" and analyst(s) certifications.

360 in 1 minute

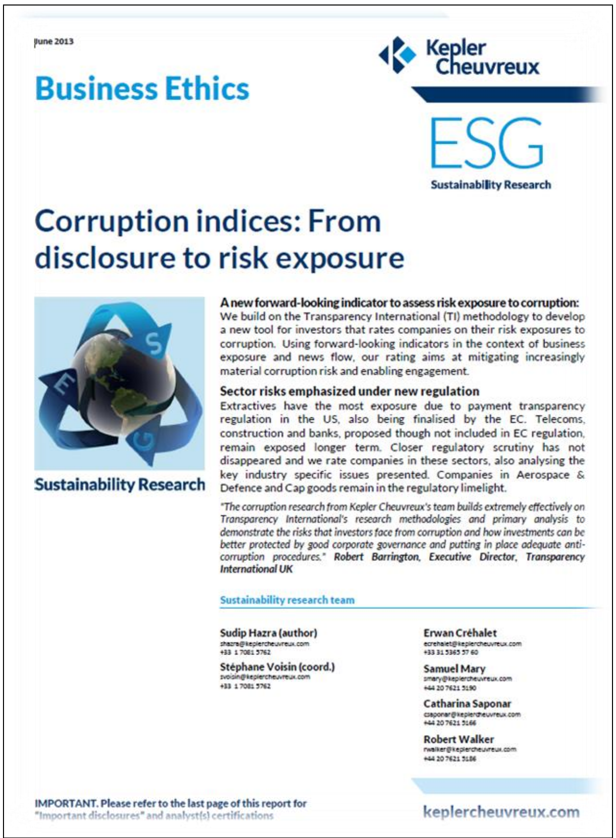
Key findings of the report

- **Wage inequality already a shareholder issue**
  The CEO Pay Ratio could be hailed as the inequality metric of our time. Through the SEC's disclosure requirement on a median wage to CEO pay multiple, inequality of income is being established as an indicator for investors. Sectors with large low-wage contingents are responding to numerous forms of wage pressure, whether regulatory (UK "Living Wage" law), or as responses to business pressures (e.g. Walmart and McDonald's in the US). Gender pay disclosure requirements are also gradually gaining momentum.
- **Indirect sphere of influence on inequality remains neglected**
  Corporate conduct has systematic impacts on numerous forms of inequality beyond direct transfers of capital. Inequality can be influenced through practices in hiring which enable social mobility, supply chain requirements, product and service range and business ethics. The wage share of value added in many regions has fallen despite productivity rises. In absolute terms, the consumer spending upon which certain segments of earnings growth may depend may be impacted.
- **Market opportunities for underserved populations**
  Access to medicine, the digital divide, bottom of the pyramid markets: increasing access to underserved consumers presents a long-term opportunity in numerous sectors and bridges socio-economic disparity.
- **Increased wealth doesn't have to mean increased emissions**
  The largest GHG emitters have been the richest nations, while the future impact is felt most by the poorest through rising sea levels and extreme weather events. Companies positioned in emissions reduction and adaptation technologies have a key role in levelling this global inequality implicit in climate change.
- **Asset owners and listed firms - the world's wealth redistributors**
  Large global companies are both repositories for global wealth creation and instruments of its distribution, through large direct employee bases, often much larger dispersed supply chains, tax payments to national and local governments and above all returns to executives and owners of capital. The inequality theme could become a major long-term concern for both asset owners and managers, and responsible investment will be central in the manner in which capital is allocated.

Kepler Cheuvreux Business Ethics Series

Kepler Cheuvreux's Business Ethics research combines a top-down approach, taking into account regulatory changes and trends in litigation, and breaks these down into company-specific impact analyses, highlighting company positioning in the most relevant areas. In a series of recent reports that have spanned corruption, anti-trust, tax avoidance, conflict minerals and soft law for investors, we focus on the material impacts of business ethics issues from several angles applied to the listed equity domain. Beyond this, the objective is to provide frameworks for investors to constructively engage with companies that are part of their investment processes.

We draw on the expertise of 75+ Kepler Cheuvreux analysts and our global network of partners and specialists including NGOs, academics and industry experts.



June 2013

Kepler Cheuvreux

Business Ethics

ESG

Sustainability Research

Corruption indices: From disclosure to risk exposure

Sustainability Research

A new forward-looking indicator to assess risk exposure to corruption: We build on the Transparency International (TI) methodology to develop a new tool for investors that rates companies on their risk exposures to corruption. Using forward-looking indicators in the context of business exposure and news flow, our rating aims at mitigating increasingly material corruption risk and enabling engagement.

Sector risks emphasized under new regulation

Extractives have the most exposure due to payment transparency regulation in the US, also being finalised by the EC. Telecoms, construction and banks, proposed though not included in EC regulation, remain exposed longer term. Closer regulatory scrutiny has not disappeared and we rate companies in these sectors, also analysing the key industry specific issues presented. Companies in Aerospace & Defence and Cap goods remain in the regulatory limelight.

"The corruption research from Kepler Cheuvreux's team builds extremely effectively on Transparency International's research methodologies and primary analysis to demonstrate the risks that investors face from corruption and how investments can be better protected by good corporate governance and putting in place adequate anti-corruption procedures." ***Robert Barrington, Executive Director, Transparency International UK***

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16 June 2014

Kepler Cheuvreux

Business Ethics

ESG

Environmental, Social and Governance

Soft law violation & liability

Towards Fiduciary Duty 2.0

Sustainability Research

Strategic partnership with:

affectio mutandi

CSR, Legal, Corporate & Public Affairs

www.affectiomutandi.com

Data partner for this report:

REPRISK

ESG Business Intelligence

Changing anatomy of liability: Civil society 2.0 & CSR regulation

The growing quantity and scope of normative standards and transparency mechanisms, which can form the basis for hard law, are proving an efficient avenue of reference for redress available to civil society and those with a grievance against a company. The proliferation of social media in corporate branding, online press and civil society campaigns presents new mechanisms of accountability and greater reputational risk.

Soft law and reputation risk targeting controversial companies

Corporates with controversial activities have increasingly found themselves in the crosshairs of "soft law" with over 175 cases so far filed via the OECD complaints process alone, comprising diverse environmental and social concerns but with human rights a central area. Reputational damage and resulting financial and operational impacts are often the greatest effect rather than monetary penalties.

Towards a new P/E ratio: price-to-ethics

Soft law documentation can provide useful indicators that integrate ESG factors into the business context. We uncover an OECD NCP supply chain report on Rana Plaza and extract from it engagement questions and indicators that can assist investors who are pushing for metrics that straddle both economic interest and sustainability concerns.

Investor collateral damage

Although CSR commitments may not be a legal obligation, the proliferation of soft law complaints and hard law litigations against corporates introduces new risks to investor assets. The credibility of corporate and investor claims relating to sustainability processes are particularly vulnerable, as they depend on trust rather than legally enforced audits. Furthermore, SRI investors are held as potential influencers of investee behaviour and may increasingly be drawn in to cases where corporates are targeted.

Limited Liability & Fiduciary Duty challenged

While investors' legal liability remains uncertain for controversial holdings, soft law precedents insist on responsibility for minority shareholdings, and more cases are likely to come up. The focus on fiduciary duty by long-term frameworks, such as the UK Stewardship Code and Kay review, implies the need for better investor due diligence and response processes to mitigate reputational risk, liability and facilitate the remediation of violations. This report aims to provide a detailed framework for these issues.

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- Antitrust & cartels: from cooperation to collusion: Document link
- Tax me if you can: game over: Document link
- Corruption indices: from disclosure to risk exposure: Document link
- Soft law liability & violation : Document link

With thanks to:

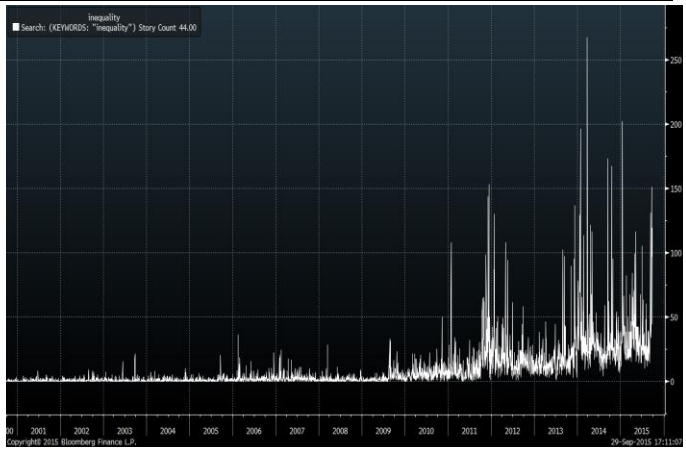
- High Pay Centre, London – Paul Marsland
- Oxfam - Rachel Wilshaw, Ruth Mhlanga, Radhika Sarin, Kaori Shigya
- ShareAction - Lisa Nathan

Thematic context in six charts

Chart 1: Reducing inequality - key impacts

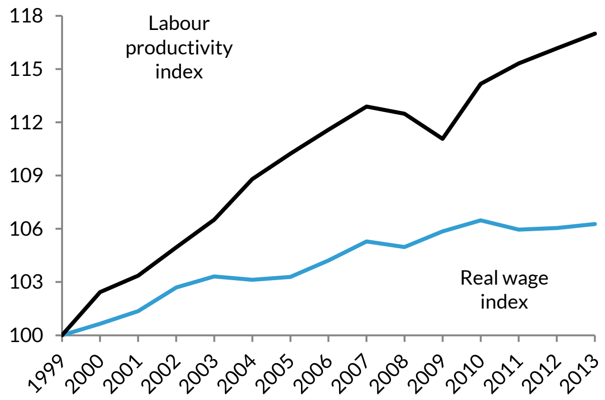
Source: Kepler Cheuvreux

Chart 2: Rising spotlight of inequality - media hits since 2000



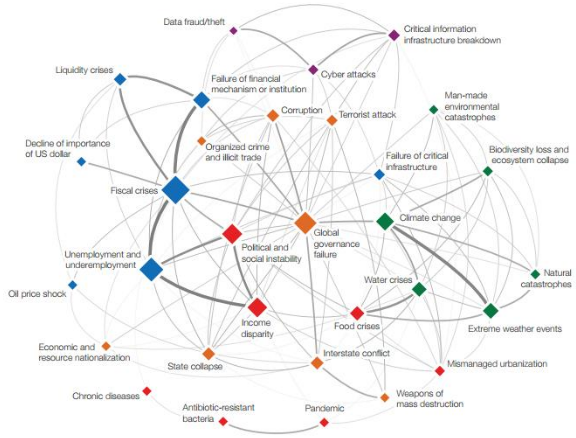
Source: Bloomberg

Chart 3: Productivity disconnected from wage gains



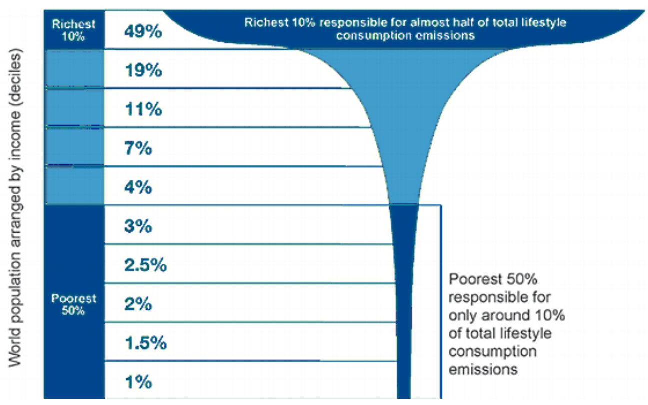
Source: ILO

Chart 4: Interconnected investor risks from inequality



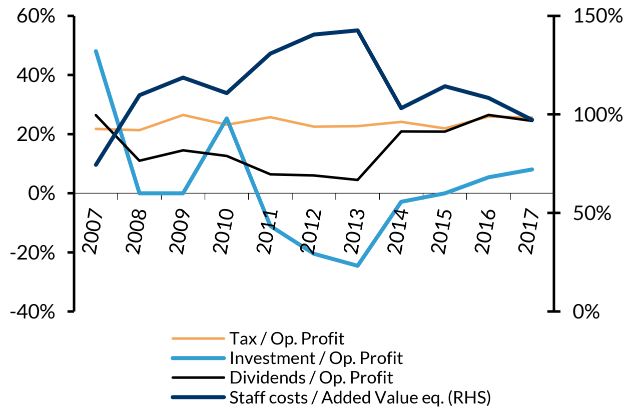
Source: WEF

Chart 5: Lifestyle emissions tied to inequality



Source: Oxfam

Chart 6: Staff costs adjusting in VA distribution of banks



Source: Kepler Cheuvreux

Contents

Stakeholders: inequality in their own words…

Bank Chief Executive Officers

"There might be an Einstein or a Steve Jobs out there, and if we fail to give them a chance to realise their potential, it hurts our economy—and our society… we would like to see more collaboration between government and business. We're all talking about improving income inequality and expanding opportunity…It is true that income inequality has kind of gotten worse…you can take the compensation of every CEO in America and make it zero and it wouldn't put a dent into it." Jamie Dimon, CEO, JP Morgan

"It's not a business issue. This is a moral and society issue. Businesses work on behalf of their shareholders with proper governance, regulated by a regulator. This is a broader society issue." Morgan Stanley CEO, James Gorman

"We've done a better job in this country at creating wealth than we have at distributing it.' Goldman Sachs CEO, Lloyd Blankfein

Policy makers and political leaders

"The OECD analysis indicates that the biggest factor for the impact of inequality on growth is the growing gap between lower income households and the rest of the population. This is true not just for the very lowest earners – the bottom 10% – but for a much broader swathe of low earners – the bottom 40%...If the bottom loses ground, everyone is losing ground." Why less inequality benefits all, OECD 2015

"Nearly all income gains of the past 10 years flowed to the top 1%. This growing inequality isn't just morally wrong; it's bad economics." President Obama

Economists

"Income inequality, by fuelling social discontent, increases socio-political instability. The latter, by creating uncertainty in the politico-economic environment, reduces investment. As a consequence, income inequality and investment are inversely related." Academics Alberto Alesina and Roberto Perotti, 1993

"*We find that longer growth spells are robustly associated with more equality in the income distribution...over longer horizons, reduced inequality and sustained growth may thus be two sides of the same coin."* IMF Economists, 2011

Others

"*While anyone with enough loot to make our count is well within the top 1% worldwide, income inequality is present even among this group: the richest 500 individuals (out of 1,826) collectively hold USD4.7trn of that USD7.05trn total.*", Forbes List of Billionnaires, 2015

"The growing disparity between pay at the high and lower ends of the pay scale for today's workforce is leading to a real sense of unfairness, which is impacting on employees' motivation at work." Charles Cotton, CIPD reward adviser

Executive summary

Inequality is an as yet unexplored portfolio of risks and opportunities for investors. A businesses commitment to avoid aggressive tax avoidance, enable social mobility via human capital management, engage in ethical conduct in avoiding rent seeking behaviour, and serve product areas catering to large markets for essential services for underserved consumers could provide a rich mix of value creation and risk mitigation.

Inequality continues to be a major concern for civil society, policy makers and communities most affected by it globally. One stakeholder which until now has been less vocal in this area are investors, seen (not always accurately) by some as a proxy for the corporate and banking excesses that have exacerbated the worst effects of inequality in the last decade. While statements of concern by prominent figures in the investment community have emerged (see *In their own words*, page 9) little actual investigation into the risks to (and the role of) the investment world has taken place to date.

An illustration of the importance of inequality as a global risk is that in 2014 the World Economic Forum flagged wage inequality as the number one global risk for the third year running. However, in 2015 the Washington Post survey found 45% of executives saying that rising poverty levels could hurt their businesses and that the growing concentration of wealth among “a sliver of the population” was a concern, but they are still *uncertain how to reduce inequality*.

In this report, we extend the inequality debate to focus on listed companies. We launch our “Inequality Footprint” to highlight four key factors of overlapping risk and opportunity: Remuneration, Social Mobility, Business Ethics and Product Impact. These comprise potentially greater long-term shareholder value combined with meaningful impacts on inequality:

1. **Remuneration**: Wage disparities, including executive pay for “performance” - remain problematic but are designed to align the highest pay packages with performance. This can be in the interests of reducing inequality also by reducing unwarranted excesses of remuneration.
   Living wage criteria pushed by civil society and unions are now increasingly under the spotlight of good labour practice and in some cases policy makers (i.e. UK and some US cities) follow this concept also. For listed companies, though the living wage is a source of short-term concerns on competitivity, we highlight potential productivity gains to firms through reduced turnover and increased engagement.
   Large low wage segments in numerous sectors including retail, manufacturing and mining are already susceptible to numerous human capital risks. When this is combined with visible excesses of executive pay, it continues to be a recipe for increased risks to shareholders through potential labour disputes (which often reference executive pay), reputational impacts, and lowered levels of employee engagement.

2. **Social mobility:** Quality human capital investment increases social mobility of employees as well as returns to shareholders through business productivity gains. Key elements include diversification of recruitment practices to access the widest possible talent pool and also the application of family friendly policies and optimised training programmes to attract, retain and maximise the productivity of appropriate personnel. Social mobility results when sections of society less advantaged in the recruitment process are employed and given the opportunity to excel in skills development and control over their careers. This extends into practices of gender, racial and disability recruitment practices.

3. **Business ethics:** Above all, the tightening of the regulatory environment has been a driver for this area, with each year producing new records for penalties across a variety of misconduct areas with major impacts on shareholder returns. But all misconduct, whether illegal or not, by nature has a social dimension, and in many cases we identify the infamously named process of "upward redistribution".
   Rent-seeking forms of price fixing for example, through collusion to restrict competition across numerous firms often have a disproportionate effect of poorer populations with the least disposable income in forcing them to pay more than free market conditions would entail. Simultaneously, the benefits of price fixing accrue disproportionately to executives in the firm, while the risk via litigation is foist upon shareholders. Numerous forms of misconduct follow this pattern and certainly corporate bribery is no different in depositing outsized payments to gatekeepers of contracts where those sums would normally reach government coffers, resulting in the potential provision of essential public services.
   We also include the supply chain as a criterion of impact: in many large global companies where production sites are present, a multi-tiered dispersed global supply chain is used which is often larger than the direct employee footprint of the company. Thus any ability to control wages, working conditions, and even environmental management of supply chains can also have a tangible impact on reducing inequality while simultaneously contributing to a long-term reduction in risks to the end purchaser.

4. **Product and service impact:** Numerous impacts are felt from products and services themselves, i.e. from their pricing particularly if they are essential goods. However, access also counts: the provision of healthcare and telecoms service (through the "digital divide") is as much an issue of creative private sector solutions as it is one of pricing and government policy (in the Access to Medicines Index criteria, pricing is only one of five equally weighted criteria used to score companies).
   Also highlighted are environmental costs, particularly in relation to climate change. History has shown that wealth accumulation has thus far been correlated to carbon accumulation. Our view is that those companies best positioned in emissions reduction and adaptation technologies are thus indirectly major contributors to a global balancing of the climate change narrative where the richest nations have historically been responsible for impacts which will be most fatally disruptive to the poorest populations suffering the extreme weather and sea level change impacts of global warming in the future.

We thus extend our analysis not just to income inequality but the counterpart of inequality of *opportunity* in which listed companies play several roles as employers, taxpayers, suppliers, lobbyists and large-scale purchasers.

Banks

Systemic impacts, systematic misconduct and risk takers pay

The **financial services** sectors have had the highest negative impacts on inequality through systemic impacts from their conduct on the economy globally. The financial crisis shows significant evidence of misconduct having had social costs for poorer and middle-class populations through mortgage-related misconduct from foreclosures to non-transparent derivatives repackaging. Resulting income gains have accrued disproportionately to banking executives, without accompanying value creation and predominantly without risk (eventuality of returning gains if resulting from misconduct). Significant controversy has accompanied variable pay practices in the sector and regulators continue to grapple with incentive pay practices as inseparable from the overall management of risks with systemic impact; this is clear through provisions in the US Dodd Frank Act and the EU Capital Requirement Directive. Most recently the risk burden has shifted from state and taxpayer to banks and their investors through "bail in" legislation.

Banks are also systematically the vehicles for the maintenance, movement and growth of global capital. In tax avoidance and evasion as well as the transfer of corruptly acquired gains to jurisdictions with banking secrecy, the occasionally lax facilitation of banks has at times accelerated the growth of inequality through aiding the illicit movement of capital. Increasingly, as with all regulatory tightening that accompanies such risks, shareholders have been burdened with the influx of litigation impacts.

Consumer sectors

Living wages and dispersed supply chain are key

Consumer sectors have the largest employee footprint through large contingents of low-wage internal employees and those in much larger geographically dispersed supply chains. Herein lies their most material impact through raising overall working conditions and addressing low pay levels in labour forces vulnerable to large social and income disparities globally.

Risks from income inequality can translate into industrial action (with resulting operational disruption). The drive toward cheaper labour costs most often entails reductions in safety and labour standards. The Rana Plaza disaster of 2013 resulting in over 1,100 deaths is one such case where the risks to companies originating from attempting to leverage income inequality resulted in both tragedy for the workforces involved and prolonged reputational damage, operational disruption, and liability for compensations not just to the firms directly associated but to all of the largest buyers in the industry.

Healthcare

Access to medicines, pricing and regulatory capture

Many large pharma companies have integrated access to medicines as a core concern of business strategy, encompassing unmet medical needs and tiered pricing in reaching underserved and poorer populations. However, the US (not typically associated as a region with access to medicine) contains sizeable inequality risks, as it is the largest single healthcare market globally with a large underinsured population.

There are numerous ongoing regulatory issues related to "price gouging" (a rent-seeking behaviour manifested by steep opportunistic hikes in medicine costs without commitment to their R&D), the use of intellectual property to restrict price competition, and continued bribery scandals that skew prescribing practices. Furthermore, regulatory capture or the disproportionate ability of pharma business to influence legislation both nationally and globally (including through international trade agreements) at the expense of poorer patients is also a critical criterion of a company's approach to inequality. The sector has also seen a certain focus by investors on executive pay.

Extractives

Environmental impacts, poverty alleviation, climate change

Extractive sectors present particular challenges from an inequality point of view, due to intensive low-wage pressures, repeated industrial actions and net negative contributions to climate change effects globally. As the business model of the sector carries increased risks of negative local community impacts companies find themselves bearing direct responsibility for displacement of local communities, land degradation and pollution. Appropriate payments to local and national governments are critical in reducing inequality gaps and the sector has been the most targeted by country reporting legislation (in the EU and US) intended to curtail corruption and to a lesser extent tax avoidance. While for the sector the risk of stranded assets in fossil fuel intensive product mixes grows the impacts of climate change are increasingly being felt by the poorest populations and those in lowest income zones remain the most vulnerable and least resilient to extreme weather effects.

Capital goods

Clean technology, social mobility and supply chain

Capital goods companies engaging in emissions reduction and adaptation technology will by nature have the poorest populations, those most affected by extreme weather events and sea level changes, as their beneficiaries. Furthermore, as a sector with a need for skilled labour, human capital policies including those on training are essential in maintaining a business advantage as well as promoting social mobility that benefits recruitment and retention. Where dispersed supply chain policies are in effect, working conditions and wages are also a primary concern.

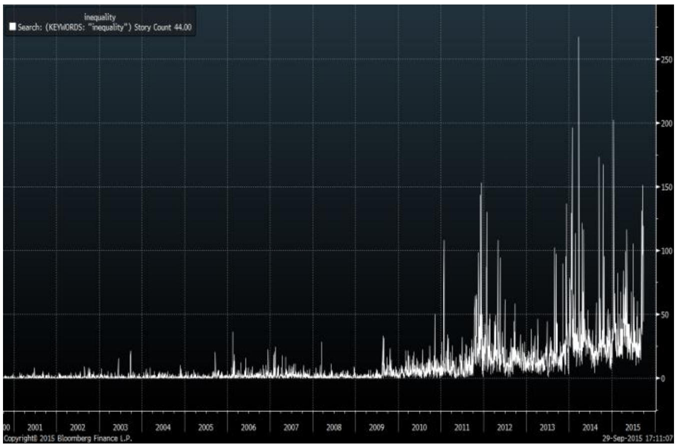
Telecoms & ICT

Accelerating access to essential services and the digital divide

Increased access to fixed telephone lines, mobile communications, ICT and internet for poorer consumers globally enables access to essential services in education, water, health, transport and banking. Such services are instrumental in driving economic growth and accelerating the path out of poverty. By thus bridging the "digital divide", underserved markets have also provided longer-term drivers for the earnings growth of those with strong presence in developing markets. We see a number of large global players that have a strong focus on quality human capital and social mobility practices within their internal HR frameworks.

Reduced inequality need not conflict with shareholder returns

Chart 7: "Inequality" references in media articles since 2000



Source: Bloomberg, news hits citing "inequality" since 2000

Chart 8: Universal concern from all media segments ….

Half of world's wealth now in hands of 1% of population – report

Inequality growing globally and in the UK, which has third most 'ultra-high net worth individuals', household wealth study finds

Why inequality is such a drag on economies

By Martin Wolf

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Big divides in wealth and power have hollowed out republics before and could do so again

Source: Guardian,, FT

Media focus on inequality themes has greatly intensified

While inequality is undeniably attached to a left political leaning, media focus has intensified across the board (see above for sample headlines from the left-wing UK paper The Guardian and also the FT), peaking in both popular media and the financial press in 2014 (Bloomberg chart tracing key word news "hits" above) with the appearance of the English translation of Thomas Piketty's Capital in the twenty-first century. The cross-feed effect for business is a greater focus on themes including pay taxation and working conditions.

Don't underestimate the media-driven interest in inequality…

…and its increasing ability to enter the corporate reputational risk profile

The role of large listed companies in inequality themes will be in focus

Economists examining wage trends from the perspective of income inequality have noted a disproportionate rise in top incomes (notably work by Piketty) compared with lower-wage segments in many developed countries. In turn, this has driven the trend towards a fall in the overall share of GDP distributed to wages. While the role of the private sector in this trend has not been a focal point of analysis, the aggregate effects of pay policy by large global businesses acting beyond minimum legislative requirements affects the evolution of such wage and distribution patterns.

Any observation of inequality is a view of a relative position…

…whether through data indicators such as the GINI coefficient which measures the ratio between low and high income groups…

Inequality is an aggregate of factors…

Shareholders have largely not yet factored in potential impacts from themes that drive inequality. Some of its primary elements have a history of being underestimated by the market. Add to this that certain constituents of inequality such as labour rights, human capital and business conduct are increasingly being legislated for (with potential penalties for noncompliance), and we think a long-term investment consideration has clearly emerged.

…or perceived "gaps" in opportunity which become popularised such as the Occupy movement

...that go well beyond wage inequality

We extend the focus from wage inequality which has been in the spotlight to aligned areas of social impact. The numerous vehicles through which inequality reduction is effected include employee pay and work practices, equitable business models (inclusive or otherwise), business conduct and corporate environmental policy.

Our approach is to highlight the dual effect of these challenges on society's key stakeholders and of course shareholders. ***For those investors who cannot exclude concern over long-term shareholder value, we think this thus far unexplored theme is set to become a far greater focus.***

Table 1: Launching the Kepler Cheuvreux *Inequality Footprint*

	Indicator	Theme	Key Metrics
1	Wage inequality	Differential between median wages in a company and the highest paid is a central focus of income inequality	CEO pay ratio, median pay, use of non-standard work (temporary contracts, part-time work)
2	Social mobility & human capital	Ability to enable social mobility & inclusion by widening talent pool and training to increase skillset and productivity	% employees unionised, supply chain indirect employees estimate, training spend per employee, flexi working, childcare support options, apprenticeships, graduate recruitment, net job creation, % direct permanent employees estimate
3	Stakeholder value added distribution : including tax , litigation, state subsidies	Non avoidance of tax payment globally provides the key economic input towards greater levels of social equality and cohesion	Disclosure on tax havens policy, actual vs theoretical effective tax rate difference, position of tax within Value Added distribution, frequency of tax litigation, use of tax credits and deferred tax strategies. Country Reporting including receipt of state subsidies.
4	Access	Bringing product & service lines within reach of underrepresented or disadvantaged groups (and catering to bottom of the pyramid needs)	Presence in markets which give access to underserved / disadvantaged populations. Revenues and growth targets from Inclusive Business strategies
5	Business ethics Impact	Impact of Business ethics issues such as bribery and price fixing have a disproportionate negative effect on the disposable income of the poorest, and can have the effect of wealth concentration	Country reporting on revenues, payments, income, assets and FTE staff. Global anti-corruption policy training, whistleblowing system disclosure, frequency and amounts of anti-corruption litigation
6	Environmental equality	Environmental products which reduce GHG emissions will de facto reduce extreme weather impacts upon the poorest populations globally	Presence in emissions reductions impact technologies and services, Scope 3 GHG and reduction in emissions enabled

Source: Kepler Cheuvreux

Above is the framework that forms the basis of the areas examined in this report to identify the risk and opportunities encountered by companies and investors in their engagement with the inequality theme.

Risks and opportunities overlap

Social and income disparities are largely intangible factors for investors looking to examine potential impacts on their portfolios. The constituent themes of inequality from business ethics, human capital, pay approaches to products have their own biases between risk and opportunity, often presenting aspects of both. We summarise the main areas below:

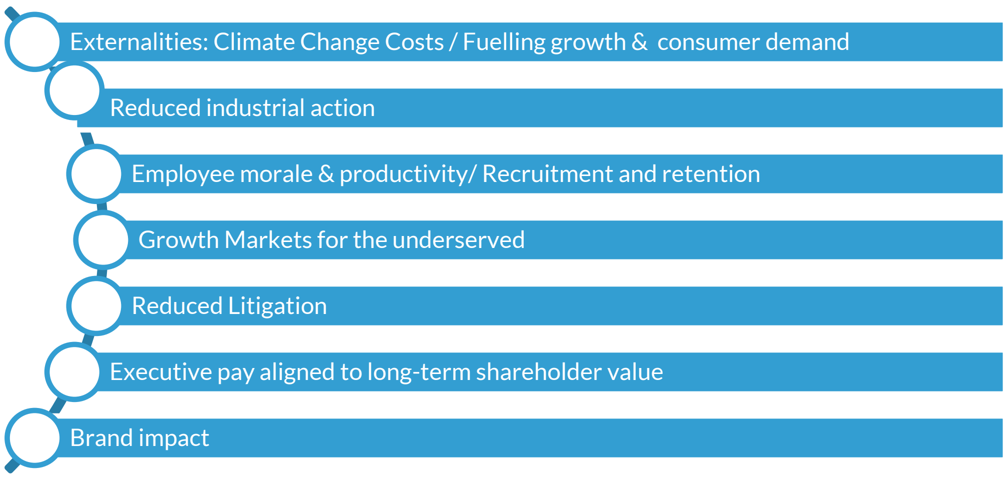
Table 2: Inequality for responsible investors - risks and opportunities

	Risk	Opportunity
Business Ethics	Misconduct or aggressive practices in an increasingly litigious and reputationally sensitive environment	Branding for companies with clear commitments to good conduct
Employee Conditions & Human Capital	Labour Agitation & Industrial Action	Optimised skillsets and employee productivity
Products & Services		Underserved growth markets & Inclusive business
Remuneration	Impacts of pay disparity : reputational sensitivity, employee morale, industrial action	Executive pay aligned with long term shareholder value and other stakeholders
Environmental	Long-term indirect impacts including insurance premium effects of extreme weather events especially in less resilient emerging markets (externality)	See our Green impact Universe (Appendix)
Macro Impacts	Indirect Impacts of weak consumer spend as a result of sustained low wages (externality)	Living Wage enhances worker productivity for low wage segments

Source: Kepler Cheuvreux

In the grid below we list the six key factors resulting from inequality that impact shareholders:

Chart 9: Why reducing inequality matters for shareholders



Source: Kepler Cheuvreux

Employee morale affects productivity

Starting from the centre of the above chart, the employee is the primary stakeholder of concern in the inequality theme. From living wage policies, working conditions, training programmes and childcare facilities, a raft of studies show the increased effect of morale on productivity. Those businesses that can capitalise on talent within society by harnessing it will recruit and retain employees most productively. Enhancing employees' skillsets empowers them to enter the path of upward social mobility with increased earning potential, especially when undertaken from a low wage base.

Continued efforts to align executive pay with shareholder value

In the case of executive pay, absolute amounts may matter less than the long-term fit of the package to incentivise performance for shareholders through the metrics that track a company's growth rate most accurately. While no magic formula has yet been found, we explored this area in our report *Remuneration: companies in the spotlight.*

Outsized variable pay in particular has been a source of governance malaise for some time among shareholders. The combination of excessive executive pay and poorer performance is particularly toxic for all stakeholders, not least investors. In the case of employees, however, large pay differential multiples serve to exacerbate issues that impact returns, such as an increased propensity towards industrial action, lower morale (see above) and increased turnover which affects both the customer experience and business costs. In December 2015, the CIPD published a survey on employee attitudes to executive pay. It found that morale was clearly affected by excessive rewards skewed towards executives and the CEO of the company.

Regulatory trends in pay and remuneration are also beginning to take effect. While some countries such as the UK have already launched policies to start a cycle of wage increases through new minimum wage regulation, others such as the US are mandating transparency through SEC requirements, to state pay ratios publicly. Those companies most resistant to either trend will be poorly positioned, inflating their own risks.

Collective bargaining and reduced industrial action

Labour issues drive shareholder risks in the low income workforce. Though industrial action arises from a variety of issues including union agitation, equitable labour conditions are clearly a factor in reducing them. Where pay disparities are perceived as being excessive, they are can be an element justifying industrial action.

Inequality's brand impact

Reduced inequality translates into brand impact indirectly through business addressing some of it key constituents. Perception is brand, and the reputational enhancements resulting in quality human capital, fair wages and fair tax payments for example have attached and detached intangible value particularly for consumer-facing companies. The proliferation in the last decade of certification in promoting brand value to consumers now fully includes areas with a variety of "best employer" niches, and in the UK we find promising ways for companies to publicly commit to key areas through "Living wage Employer" certification and the "Fair Tax Mark".

Inequality can slow consumer demand and growth

Momentum has emerged among some economists who support the idea that a drop in spending can result from increases in inequality. Indirect impacts are felt therefore by groups of large consumer-driven companies who may be contributing to one factor of their own earnings demise in reducing wages collectively while raising executive pay. Underlying this idea is that the rich (who are few in number) contribute far less consumer spend than the poorer majority.

Social cohesion underlies these risks

"If we don't do something to fix the glaring inequities in this economy, the pitchforks are going to come for us" Nick Hanauer (referencing the ultra-wealthy)

For investors, "social cohesion" has been a distant concept. However, actual risks from the breakdown of its key elements such as trust and willingness to follow rules (both written and unwritten) are exacerbated with wealth gaps and rapidly increased social disparities (e.g. the Occupy movement during the financial crisis). At the heart of the most damaging aspects of inequality are those that stem from a perception of there being a zero-sum game - i.e. that for one minority stakeholder to gain – often at “extreme” levels (the shareholders, the CEO, the executives, the nameless “1%” or any subset of it) - some other major segment of society (the poor, the sick, the “good guys” or the 99%) has to be disproportionately denied. In practice, for business and its investors it is demonstrated in a variety of abstract factors including the overall cooperation of the labour force with management, the nature of union relationships, the ability to reach consensus in the workforce and the numerous everyday demonstrations of collaboration across workforces that increase productivity.

Though the subtext in the rhetoric of inequality is usually the good guys (the 99%) versus the bad guys (the 1%), this is not necessarily helpful for any progressive analysis...

... with investor risk firmly inserted on the wrong side of this narrative

One example of a clear breakdown of social cohesion is in the militancy of actions in labour disputes. In October 2015, amid the announcement of 2,900 job cuts (many of which would be forced redundancies), one of Air France’s HR executives had his shirt ripped off him as he was chased over a wire fence during a meeting. While there is a higher level of such militancy (pushed by the excesses of some unions) in France which includes the lock-ins of senior managers, such actions are a symptom of inequality. Though in certain cases they can be dismissed as acts of illegal hooliganism, in the context of Occupy protests globally they look distinctly less extreme.

An opportunity for asset owners

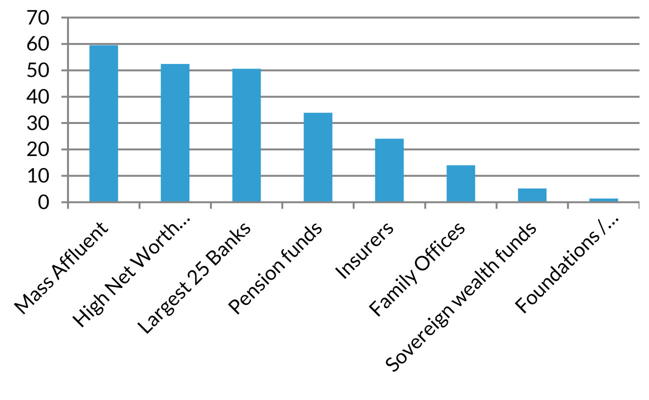
Table 3: Factors for asset owners

Theme	Explanation
Externalities	Climate change has been the key externality to date, but income and social inequalities have not been well explored
Universal owners	Where large funds own fractions of a very large number of securities the externalities above are increasingly material
Long-term risk and returns	Inequality themes are appropriate for long term investment periods
Stability of capital markets	Imbalances of capital markets which destabilise returns also increase levels of inequality
Responsible investing	The constituent factors of inequality already pervade responsible investing already present in asset owner mandates

Source: Kepler Cheuvreux

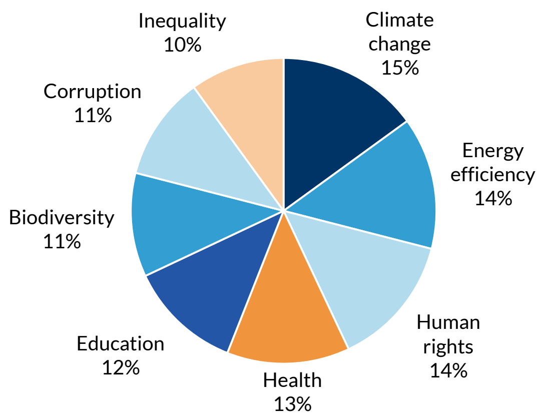
Our view is that a company’s performance on inequality through the four main factors (wage inequality, social mobility, product & service impact and business ethics) outlined in our report serve as a good proxy for the overall sustainability performance of the companies. Numerous asset owners have a stake in assessing this performance as they serve, in part, as redistributors of all the world’s major sources of wealth.

Chart 10: Asset owner relative levels (USDtrn)



Source: Ernst & Young

Chart 11: Inequality cited as key concern in Eurosif Survey by 10% of respondents



Source: EUROSIF 2012

The evolution of High Net Worth Individuals can be seen as a symptom of inequality; the so-called 1% have been the object of focus within the debate. However, SRI is a clear enabler of inequality reduction in all forms through targeted investment methodologies. While the HNWI segment in the last decade clearly shows growth to match the overall observations of increases in inequality over a matching time period, HNWI interest in SRI itself has also increased significantly. A Eurosif survey from 2012 noted RI as a significant concern in the majority of HNWIs. This is clearly significant, as HNWIs (together with the Mass Affluent, their poorer cousins) are large owners of assets globally.

Responsible investment has a central place in Piketty's R>G observation

Thomas Piketty suggests in "Capital in the Twenty-First Century" that where growth from asset returns exceeds that of the economy as a whole, inequality will increase; this famed R>G thesis has implications for the way that asset returns themselves are created. Our view is that asset returns generated from example from responsible and impact investing can have a part to play in alleviating inequality, SRI assets under management continue to grow and penetrate the investable universe. Clearly a vision is possible where greater asset returns need not mean incremental increases in inequality.

Inequality is an unexamined externality for universal owners

Universal owners or those that own a small part of large numbers of companies are particularly vulnerable to impacts of externalities. While much has been written on climate change and the indirect impacts, there has been much less focus on inequality: as company behaviour in aggregate clearly creates externalities that can negatively impact shareholder returns, universal owners are implicated in the inequality debate. Companies that pay too little to their employees are restraining demand. Similarly, suboptimal conditions for employees can also be seen as a contributor to suboptimal worker productivity.

In advocacy, groups of universal owners can be particularly valuable in supporting long term responsible investing interests, sometimes acting as a counter balance to the investee companies and their trade bodies that also have large influence in the policy making process. (Climate change regulation is one example.)

Is there a fiduciary duty to reduce inequality?

Just because a company says its fiduciary duty gives primacy to shareholder interests does not mean the share price won't also drop as a result of the very activities (tax avoidance, price gouging, not allocating capex to lower carbon emissions) where fiduciary duty is invoked as justification

Some mainstream funds have cited their fiduciary duty as a barrier to using SRI factors in investments. Companies also have cited their fiduciary duty to such shareholders as a barrier to the integration of certain conduct that applies to both social inequality and income inequality. As Stiglitz puts it:

"Individuals working for such institutions (corporations) are instructed to care primarily (or only) about the well-being of, say, their shareholders; to do otherwise would be a dereliction of their duties to others, an action which might even be labelled as immoral."

In recent months, much has been made of business ethics in biotech pricing and again proponents of hiking prices after acquiring licenses incites a primal duty to shareholders to maximise profits. The same was echoed by Apple CEO Tim Cook in a Senate Hearing on the company's tax minimisation practices.

The arguments related to duty to shareholders as being primary over any other stakeholders. That did not stop the entire biotech sector and those companies involved experiencing sharp drops in market value as a result of the behaviour of a few firms seemingly prioritising their fiduciary duty (see pharma section for full details).

Our view is that the broad themes of inequality both in their direct impact and through externalities can damage shareholder value and requires a reframing to incorporate a broader long-term view of fiduciary duty.

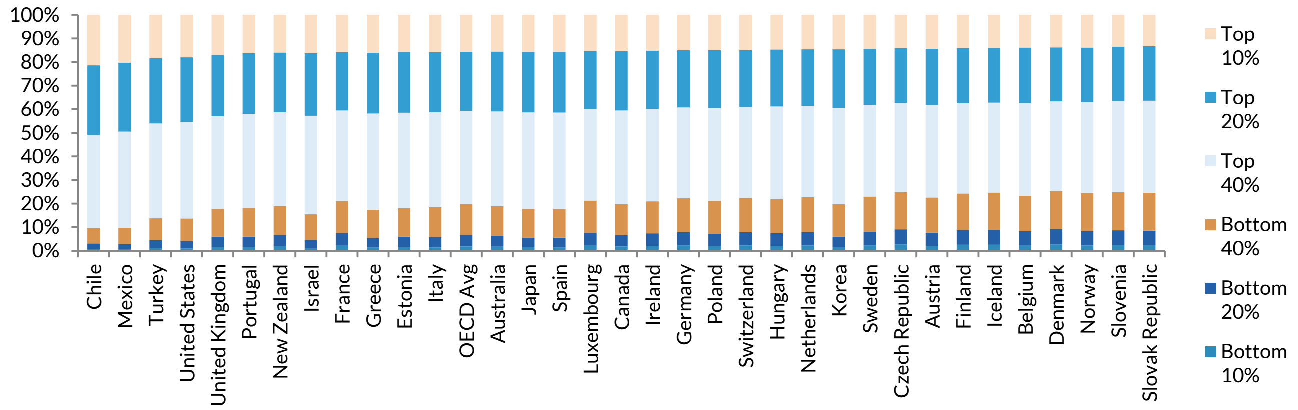
Inequalities of wealth and income

"Nearly all the income gains of the past ten years have flowed to the top 1%. This growing inequality isn't just morally wrong; it's bad economics." President Obama.

US and UK inequality outliers among OECD countries

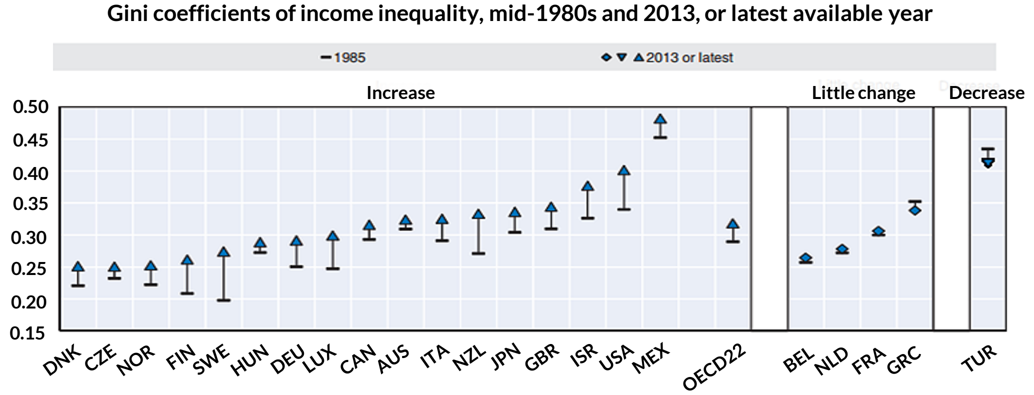
Geographically, inequality is a global, national *and* local issue. Outliers in mature economies are the US and the UK - which have some of the highest GINI coefficients and accompanying manifestations of socio economic disparity. The same pattern is repeated in the share of income distribution, with the US and the UK figuring in the highest group for percentage of the total wealth owned by the broad top 10% measure.

Chart 12: Total share of income by income groups, ordered by highest top 10%



Source: OECD

Chart 13: Income inequality has increased in most OECD countries



Source: OECD

Lower-income households: greatest impact on inequality

An OECD analysis indicates that the biggest factor for the impact of inequality on growth is the growing gap between lower-income households and the rest of the population. This is true not just for the very lowest earners (the bottom 10%), but for a much broader swathe of low earners (the bottom 40%). Countering the negative effect of inequality on growth is thus not just about tackling poverty, but about addressing low incomes more broadly. Business' role enters in an big way through wage setting practices.

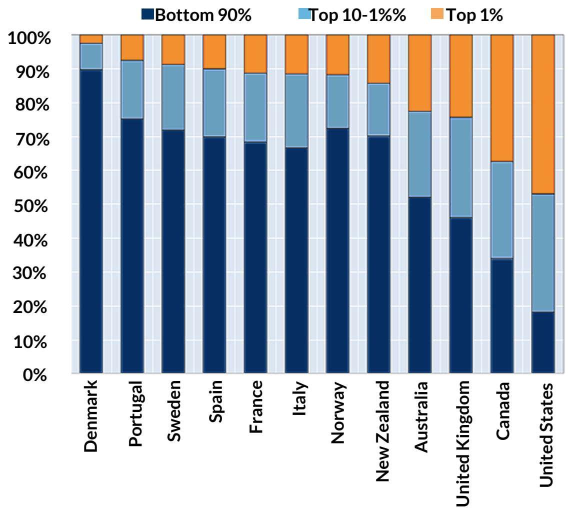
So where do the productivity gains go?

Redistribution of productivity gains where they have occurred is the focus of the challenge for companies. Where gains have occurred and a perceived fair distribution among employees has not been met, accruals to senior management and executives are the source of potential labour disputes.

While 20%+ of income gains have accrued to the top 1%, actual gains in productivity have not been reflected in real wage increases

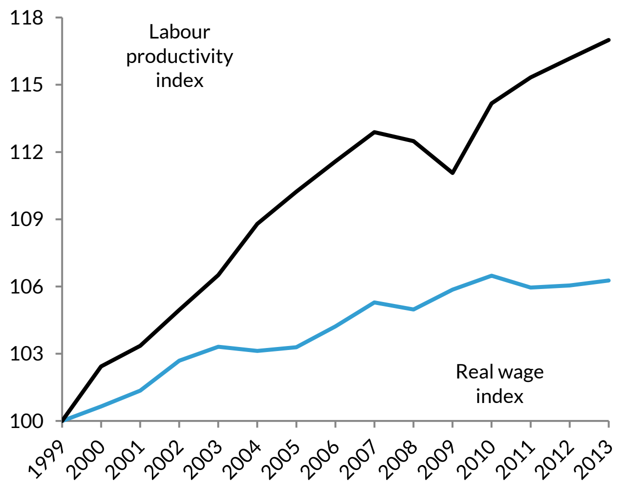
We highlight the potential negative impacts on employee productivity as a whole and its effect on the firm but also the indirect potential to stall the economic growth from which the corporate earnings benefit. From 1948 to 1973, increases in hourly compensation were roughly in step with rises in productivity. However, between 1973 and 2013 a sharp disconnect emerged, with productivity up 74.4% versus hourly compensation increasing by only 9.2%.

Chart 14: 20%+ income growth captured by the top 1%



Source: OECD

Chart 15: Productivity disconnected from hourly compensation



Source: ILO

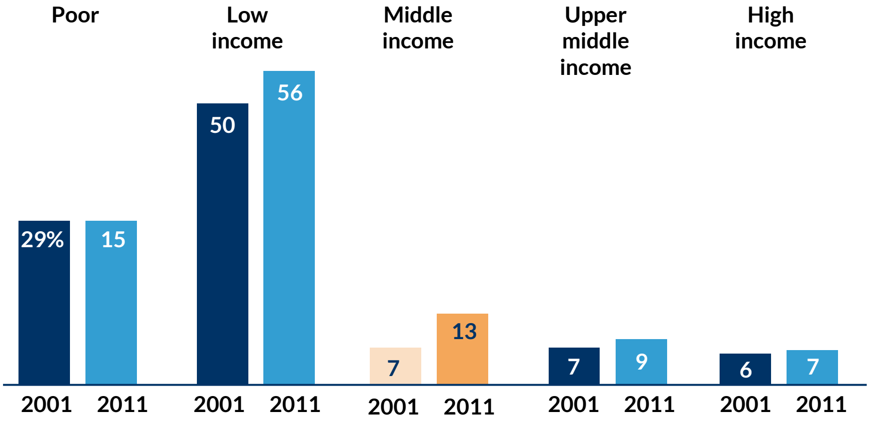
Middle-class consumers: narrowing the gap

Though income inequality generally polarises its focus on the extreme ends of the wealth spectrum, the overall reduction of inequality or upward movement of wealth can result in the growth of middle-class spending power. However, in emerging economies where the median wealth is low, any overall gains may result in the alleviation of poverty, but less so in the creation of middle class disposable income. For example, Nestle's Africa CEO commented in 2014:

"We thought this would be the next Asia, but we have realised the middle class here in the region is extremely small and is not really growing."

The entry into the middle class also tends to be accompanied by greater drives to enter semi-skilled and skilled labour forces through use of higher education systems which can result in further accelerated economic growth. A recent study by the PEW research centre shows that while poverty has decreased since 2001, globally much potential remains in increasing middle income segments which have the fastest growth. Tech, pharma, financial services and capital goods for example which are larger employers of skilled and semi-skilled labour are drivers in this trend.

Chart 16: Global income segments



Source: PEW

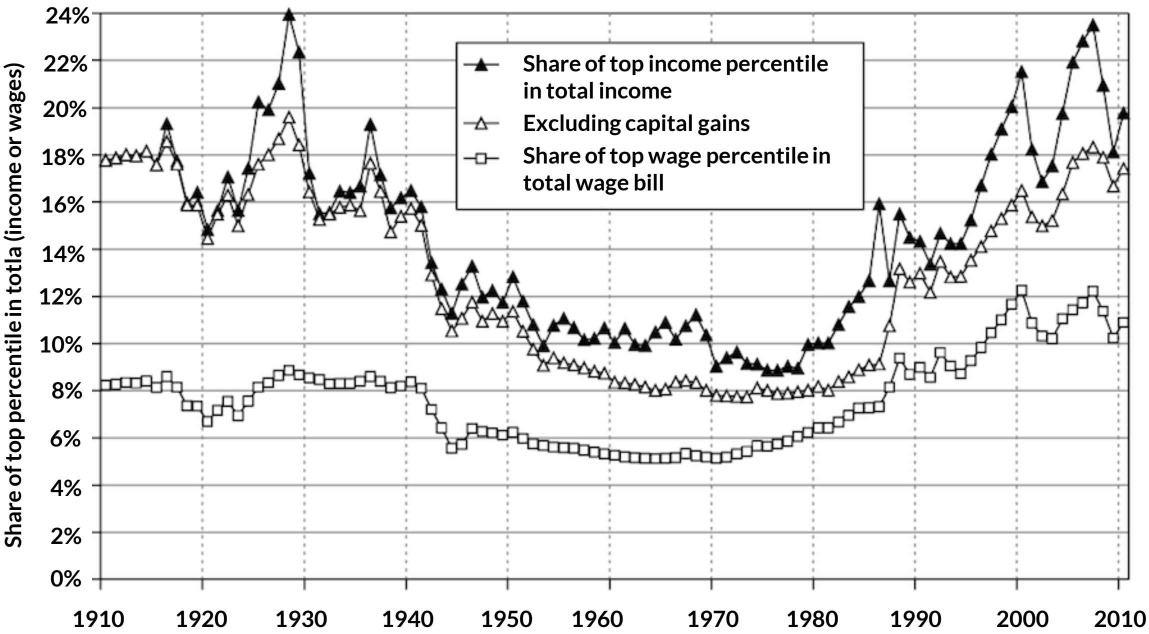
According to the OECD, the number of middle-class (using a broad definition) worldwide will exceed the poor by 2022. By 2050, the demographic shifts from the majority of the middle class located in Europe and the US to India and China. For India in particular, lower-income inequality is a driver of middle-class consumption growth. By contrast, the EU and the US have been seeing a shrinking of their middle classes, one driver of which is increased poverty and inequality.

The rise of the 1% and CEO founders

Recent work, most notably by Thomas Piketty, has led to a new focus on "the 1%", first popularised in the Occupy protests. Here, the 1% has come to serve as shorthand for an executive class, defined as "super managers" by Piketty himself.

These groups are still below the 0.01 % group who tend to be billionaires, which include several founder CEOs and ex CEOs (from a handful of companies). The other primary constituent of the 0.01% is inherited wealth: often the heirs of the founders of the world's largest listed companies. (Such family influence can also bring potential challenges to minority shareholders if there is a lack of effective counter balance).

Chart 17: Executives in listed companies and financial services account for a sizeable chunk of the 1%



The transformation of the top 1% in the United States
The rise in the top 1% highest incomes since the 1970s is largely due to the rise in the top 1% highest wages.

Source: Piketty, Capital in the 21st Century

Negative impact on economic growth

"The OECD analysis indicates that the biggest factor for the impact of inequality on growth is the growing gap between lower income households and the rest of the population. This is true not just for the very lowest earners – the bottom 10% – but for a much broader swathe of low earners – the bottom 40%...If the bottom loses ground, everyone is losing ground" "Why less inequality benefits all", OECD 2015

While there is disagreement from economists and academics on the net impacts of wage inequality on economic growth, a clear line of argument has emerged that under certain contexts (especially economies most dependent on consumer lead demand) wage inequality has a negative impact on economic growth. The wage share of national income can clearly be a driver of growth beneficial to business through consumer spending (e.g. income gains are clearly a driver for retail sales).

Large profit-generating listed companies are therefore potentially contributing indirectly to a drop in the consumer spending that could drive their own growth through systematically keeping wages low and lobbying for such actions at a policy level.

"The rich are different from you and me..."

(F. Scott Fitzgerald)

Another argument is that the wealthiest tend not to spend as much in aggregate, as they are so much fewer in number. Typically, the richest will spend on average 65% of their household pre-tax income, whereas for low-income families the amount will typically be a multiple of 1.7x – according to US Census data. Spending by the

The wealthiest spend less in aggregate than the rest of the population...

...some economists point out the clear effects of the bulk of the population driving consumer spend and economic growth through an increased wage share

majority of the population (particularly those that work as employees) accounts for the upwards movements in consumer spending most beneficial for economic growth. Lowering income inequality levels in bridging such a gap can therefore be an element in bolstering growth. This is particularly the case when the accompanying areas of inequality related to greater representation in policy making, levels of diversity and access to employment are taken into account in creating a potentially more dynamic economy and certainly a more stable one as a whole.

The OECD notes that high inequality makes for a less efficient and productive economy, and it has used this fundamental starting point for a variety of its studies. The IMF also finds that countries with greater inequality tend to be "marked by lower growth and greater instability". Nobel prize winner Joseph Stiglitz summarised the demonstrable economic variables of inequality positing that "trickle-down economics" doesn't work by observing the increase in the wealth-to-income ratio, the stagnation of median wages and the failure of the return to capital to decline. It is in the area of wage setting that the private sector has a degree of influence.

Employee share ownership has increased since 2009 both among ordinary employees and executives according to European Federation of Employee Share Ownership

Remuneration: income versus wealth

Within remuneration structures wealth (via assets) rather than income contributes to disparities between the poorest and wealthiest. The clearest manifestation is through executive and senior management pay which almost always contains a stock and/ or options elements as a long term incentive as a large element of total remuneration. Share schemes (for example Save As You Earn in the UK) available to all permanent employees are therefore in our view an important consideration for listed companies. Though they should not make up the bulk of pay for lower income employees they do provide potential long term participation in company profits as well as potentially enhanced employee engagement.

Tax breaks for large executive pay packages fuel allegations of a "corporate subsidy"

Additionally executive pay enjoys some tax breaks (i.e. stock option awards) which may increasingly be under scrutiny as a result of the mandate of governments to act on inequality.

From minimum wages to living wages

A handful of large consumer facing employers, especially in the US, have voluntarily been raising pay for those at near minimum wage levels. Employers that have begun to increase low wage pay are found mainly in fast food and retail sectors. These have included Morrison and LIDL in the UK, and Starbucks, Walmart, McDonalds and Target in the US.

Thirty of the FTSE100 companies have signed up to the Living Wage Foundation standards...

...which include longer-term obligations to extend the living wage to contractors

The drivers for this include a variety of factors such as a business rationale to reduce turnover and associated costs, increase customer service, and optimise recruitment. Actual and potential cuts to tax credits for lower paid workers may also be a factor. According to Bloomberg USD7bn tax credits serve the US fast food industry's low paid workers each year. The campaign to introduce a 15USD minimum wage (already introduced in a few major US cities) notes that at this wage level the use of federal and national assistance programmes would be far less pervasive. In recent UK budget announcements the Chancellor has also prioritised tax credit reforms for the low paid alongside obligatory wage rises toward a "living wage" – with an overall momentum to transfer greater obligations to the private sector for their lowest paid employees.

Within the UK the Living Wage Foundation counts 2129 employers (of which 30 are FTSE100 companies) as having pledged to pay the Living Wage according to Foundation standards (higher than legal standards recently introduced). A large number of service companies figure in the list, who may not have significant wage exposure to this segment, compared to those large employers in retail, logistics, hospitality and care services where impact would be significant. Critically the Living Wage Foundation does require a roll out to third party contracted staff, with the objective that contract renewals will oblige the Living Wage over time.

Living wage: Motivating employees and shareholders?

IKEA, committing to implement a Living Wage for UK employees (c. 9,000) by April 2016 stated:

"It is not only the right thing to do for our co-workers, but it also makes good business sense. This is a long-term investment in our people based on our values and our belief that a team with good compensation and working conditions is in a position to provide a great experience to our customers."

The concept of the living wage has gained greater momentum in recent years, although big discrepancies will continue to exist as to its determinants. Conceptually, there are clear differences between what should constitute a minimum wage in rural areas in developing countries and those of major capital cities where minimum standards of accommodation and public transport alone can surpass some minimum wage levels.

In August 2015, the UK Chancellor announced the rollout of its version of the living wage as GBP7.20 per hour for those over 25 years of age, increasing to GBP9 by 2020. However, the independent "Living Wage Foundation" references the rate as GBP8.25 for the UK and GBP9.40 for London, finding that in recent years the gap between the minimum and living wage has increased year on year (from a difference of GBP1.12 in 2011 to GBP1.35 in 2014).

However, even apart from a push by governments, the private sector has numerous material reasons to react to improve the pay and conditions of the low-wage sector including customer experience, employee morale and turnover-associated costs. In recent interviews, Tesco CEO Lewis clearly put service above price in the company's strategy. As the UK's largest private sector employer, clearly any suboptimal HR issue such as allegations of routine unpaid overtime or other wage contract-related issues have clear potential to affect sales, if not branding.

Table 4: The low-cost conundrum: impacts of low wage and poor working conditions

Impacts of low wage and poor working conditions	Financial materiality
Total cost of replacement: 10-30% for low wage salary	Increased SG&A
Obligation to hire agency staff (total cost 2-3 x perm employees)	Increased SG&A
Workers unable to purchase at workplace (even with applicable discount) due to low wage	Reduced sales/ same-store growth
Loss of custom via reduced or segmented purchase, unofficial boycotts by frustrated customers	Reduced sales, costs of customer complaint handling
Increased revenue for competitors receiving lost custom	Poorer relative performance
Segment of staff slipping into working poverty households	Increased sickness/ reduced productivity
Poor staff morale impacting customer service	Reduced sales/ productivity measures
Poor staff morale increasing willingness to work for competitors	Reduced sales/ productivity measures
Poor staff morale lowering productivity / ability to meet business targets	Reduced sales/ productivity measures

Source: Kepler Cheuvreux

Lower wages, lower consumer demand

"We find that longer growth spells are robustly associated with more equality in the income distribution. Over longer horizons, reduced inequality and sustained growth may thus be two sides of the same coin." IMF Economists, 2011

In the UK, the think tank NEF states that for every 1% reduction in the share of national income going to wages, UK national income (measured by GDP) is reduced by 0.13%, or GBP2.21bn. Overall, the reduction of the wage share is echoed in the majority of OECD countries and is a major factor in increased income inequality in the last three decades.

The pay ratio: a metric for our times?

"The growing disparity between pay at the high and lower ends of the pay scale for today's workforce is leading to a real sense of unfairness, which is impacting on employees' motivation at work," Charles Cotton, CIPD reward adviser

While remuneration still dominates UK shareholder engagement, attention to the overall context and pay disparity has seen less focus.

Shareholder focus has been on exec pay…

…but will executive pay conditions really always have a greater effect on shareholder value than those of the workforce overall?

Shareholders have pushed harder (and only with mixed results) to align executive pay with performance measures in recent years. However another related area, that of wage disparity between the highest-paid executive, (often the CEO) and the "average worker", has yet to emerge with equal consideration as its increasingly material counterpart.

Implementation of business strategy as set by senior executives will clearly impact a company, but so too will the intensity and effectiveness of the daily contributions of the remaining workforce, and in many cases that contribution will potentially be larger than that of the Board and CEO.

In cases where the gap between executive pay and any measure of average pay is large, even where average pay has not been disclosed explicitly, high pay details tend to attract enough attention to create risks stemming from any extremes of income inequality. A multitude of labour disputes and employee engagement studies cite pay disparity as having a major negative impact (even in the absence of an officially disclosed pay ratio). Legal obligations for the most part have increased transparency on CEO pay globally but the rest of the workforce recognises and may react to low pay when they receive it, whether or not it is aggregated into any annual report statistic.

Why is this important? While any CEO pay ratio needs contextualisation within sector and company performance, the highest pay ratios increasingly attract greater scrutiny from governments, employees and investors. As the scrutiny has now become public, the reputational impacts and accompanying management distractions have also been amplified. We note that policy makers have also begun to focus on ideas to use the pay ratio metric to govern corporate taxation and even dividends.

However, for investors the debate on alignment of performance with pay has been considered mostly separate from that on pay disparity. Our view is that the two can be implicitly related: rewarding executive performance can increase shareholder value (although it will rarely be the sole factor in accounting for it), above all where meaningful metrics form the criteria for incentive pay. In doing so, the highest pay ratios can be better justified through the value creation that is likely to accompany them. However, this overall approach is likely to over-focus on executive influence and discount the cumulative impact of human capital and median pay improvements upon shareholder value.

As the High Pay Centre observes, UK pay packages for FTSE 350 directors jumped by more than 250% between 2000 and 2013, roughly five times as rapidly as returns to shareholders, with only a negligible link between incentive payments to executives and shareholder returns. In terms of business performance, while pay structures should incentivise quality management, leadership and innovation, they do not always do so, and adjusted measures of shareholder return too often serve as an ineffective substitute to measure these fundamental areas of business performance.

UK pay packages for FTSE 350 directors jumped by more than 250% between 2000 and 2013, roughly five times as rapidly as returns to shareholders

Aligning executive pay, bonus caps

A limit on bonus awards is unpopular with shareholders who see it as a potential cap on shareholder returns. Our view is that clear long-term criteria incentivising balanced long-term performance and enabling executives to participate in excess returns are more favourable than absolute level bonus caps (see our guide to deferred pay below from our report *Remuneration: companies in the spotlight*). Vertical pay considerations are also relevant, so that the position of executive pay is considered within the context of the company remuneration as a whole - this is all the more important in situations of restructuring where lob losses could well push exec pay into the public domain and doubly affect employee morale, productivity and reputational considerations.

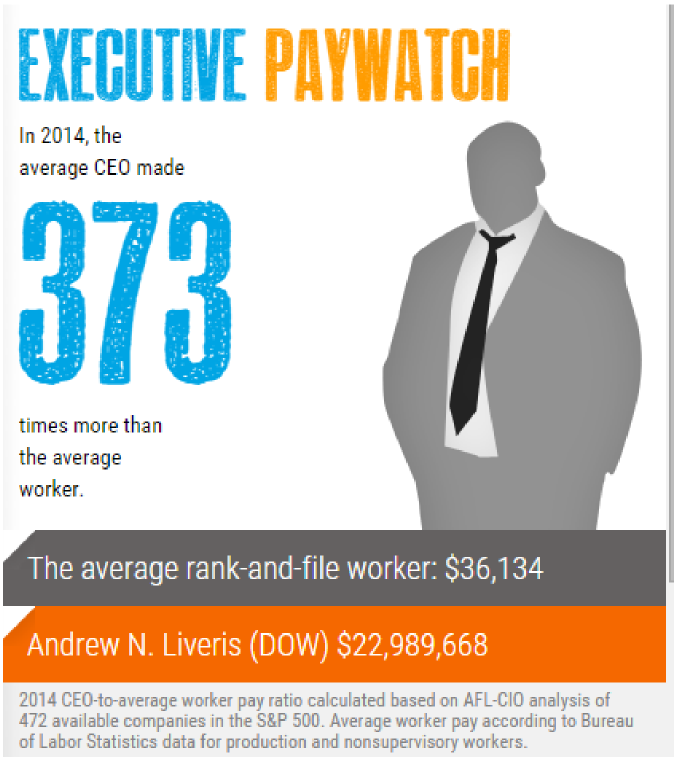
In particular, we highlight where underlying EPS is used the factors removed from the actual EPS may serve to incentivise certain behaviour. In industries where litigation is routine but a key factor in the erosion of shareholder value (e.g. pharma and banks declaring such items as exceptional when they occur year on year, without disclosure of adjacent costs - legal and compliance), this is a negative. In the context of inequality, it clearly serves the argument that economic rent is being extracted not just from shareholders but society as a whole, especially when the workforce does not participate in the gains, especially where job losses are present, for example.

A major concern with pay ratio data is that alone it may not serve the purpose for which it was intended. Therefore, it needs to be contextualised, and we require relevant accompanying data related to ***workforce disclosure***, including headcount, turnover, gender, training, contract types used (zero-hour contracts, independent contractors) and geographical breakdowns.

A lack of workforce disclosure is the biggest obstacle to more meaningful analysis

While there is immediate pressure from some quarters to produce systematic and conclusive evidence on shareholder returns in other areas such as gender diversity where policy reforms have already begun to be implemented (mandates on board level gender representation), no final evidence for shareholder benefits was required. Income inequality, though in our view an area critical for investors, should not pre-require concrete evidence of impacts either in terms of both the private sector and policy makers engaging to enact its implementation.

Chart 18: Pay ratio activism: AFL-CIO US Union Federation



Source: AFL CIO

Chart 19: South Africa Union Federation and UK High Pay Centre (taken - 21 January)

Source: High Pay Centre

What's the future direction of regulation on inequality reduction?

"...you talk about the wealth gap and politicians say, 'well, you can't legislate equality,' but we legislate inequality." Carl Icahn, Interview, 2015

Inequality is becoming ingrained in political rhetoric. Early-stage proposals have taken place that show the potential future direction of regulation aimed at easing inequality, whether on the basis of living wages or pay ratios.

Pay ratio to influence a group's corporate tax rate?

- In 2014, the California State Senate's proposal to tie the corporate tax rate to the CEO-worker pay ratio gained some momentum, with higher disparities resulting in higher taxes. Though a majority were in favour, a two-thirds vote was required, so the proposal was not passed.

- UK Labour Leader Corbyn proposed regulation in 2016 that dividends should not be paid by companies where the living wage was not paid, on the basis that there should be an obligation that profitability should generate fair wages as well as shareholder returns.

Investors please take note on this one: no living wage, no dividends

While these proposals come from progressive political contexts, listed companies should take note of the overall tone of the propositions; what appears to be activist currently feeds in very much to the desire from some regulatory corners to use transparency on micro-inequality factors with a view to producing specific liabilities for businesses that choose to ignore them.

Broadening the context: inequality's multiple forms

Income and social disparities: beyond economic indicators

"GDP in the US has gone up every year except 2009, but most Americans are worse off than they were a third of a century ago. The benefits have gone to the very top. At the bottom, real wages adjusted for today are lower than they were 60 years ago." Joseph Stiglitz

A noticeable observation by civil society is that measuring wages alone or using the exclusively economic measures such as GDP for relative comparisons is to narrow our understanding of inequality itself. Purely economic measures may miss the actual lived reality that poor relative wages for example can mean. As Stiglitz puts it, *"GDP measures everything except that which is important"*.

Capturing intangibles: Social Progress index

The Social Progress Index, lists objective sub factors to measure Social Progress. In our view, these can be used as proxy for major observable variables of inequality:

Chart 20: Social Progress Index Criteria summarise the real underlying aspects of inequality

Social Progress Index

Basic human needs	Foundations of wellbeing	Opportunity
Nutrition and basic medical care	Access to basic knowledge	Personal rights
Water and sanitation	Access to information and communications	Personal freedom and choice
Shelter	Health and wellness	Tolerance and inclusion
Personal safety	Ecosystem sustainability	Access to advanced education

Source: SPI

The study observes that Costa Rica, with an average annual income of just USD13,000, has achieved a high social progress score of 77.9 through addressing the above factors. However, for more countries to share in such an all-round development would require a shift away from *"a reliance on growth alone"*. Cultural shifts, scaling social innovation and cross-sector collaboration are necessary, and the contribution of the private sector is an important one. We emphasise that such frameworks lend themselves to any investment analysis of intangible value and some aspects can be translated into a business context. Below are two such frameworks, which we highlight. First, by the UK-based think-tank NEF (New Economics Foundation) and secondly by US based "Just Capital":

Table 5: Beyond GDP: alternative approaches to measuring performance of economy (NEF)

Area	Description	Current policy indicator (if any)
Good Jobs	Highlight "quality" employment by identifying and excluding precarious, low-paid employment	Unemployment figures
Wellbeing	Average life satisfaction. "Social Trust" a factor where business has a key impact, especially negatively i.e. during financial crisis	N/A
Environment	Consumption-based carbon emission, advancing climate negotiations, move to consumption based measure of emissions rather than restricting territorially, biodiversity, natural resource use, Four Footprints, local air quality	Consumption based GHG Emissions See our Sovereign Footprint Report
Fairness	Growing gap between the incomes of the top and bottom 10% of households	GINI Indicator
Health	The way that society is structured can affect health, help prevent ill health	Life expectancy

Source: NEF, Kepler Cheuvreux

Using crowd sourcing to prioritise use of indicators is a new and democratising approach in performance measurement which takes a "public" view on what's important...

...and not just economically

Income disparity is treated as a question of "fairness" here. Taken in the microeconomic context, the impacts on business and therefore investors of a lack of such fairness are clearly under-examined. We also cite another alternative framework to assess performance beyond economic factors coming from the other end of the spectrum to NEF: in an initiative sponsored by Paul Tudor Jones, the hedge fund founder, entitled Just Capital – an index is formed of responsible companies based on a *crowdsourced* selection of factors.

While many of the constituents will overlap in any such alternative framework seeking to incorporate non-financial measures, where it differs from the traditional index providers is "democratic" nature of the selection of variables, based on reflective sample slices of the US population who submit subjective priorities as their criteria priority views. Crucially, income inequality is not only a central factor but its "feed-in" factors must necessarily play a part including for example detailed criteria on favourable employment conditions including the living wage:

Table 6: The US "Just Capital" initiative cites inequality as a central concern especially related to employment

1	Employer-sponsored health insurance
2	**Living wage** (that is high enough to cover employees' needs for food, housing, and medical care)
3	Paid sick days
4	Paid vacation
5	Follow-through on retiree health care and pension commitments
6	Family benefits (maternity, paternity, childcare)
7	Fair and transparent merit-based pay (including equal pay by gender)
8	Employer-funded pension or 401(k) match

Source: Just Capital

"Happiness" translates into employee engagement

Beyond GDP, a movement has begun to measure happiness in the population as a whole and in the workforce. This is entirely relevant to companies and investors, as the underlying driver is that satisfied employees will be more productive and be retained more easily. The clearest measure of such a form of "happiness" in the workplace context is through employee engagement or satisfaction surveys.

Distributing value: a changing balance

Listed companies - wealth creation, wealth repositories

Large listed companies are the apotheosis of the entrepreneurial process. Such businesses serve as both the world's largest repositories of wealth via publically traded share capital and in wealth creation through the participation of CEOs and other executives in that capital. While risks to minority shareholders can be heightened by the dominance of a CEO founder on the board, a large stake in the company indicates success in growing the business and can provide motivation for continued returns.

While shareholders may have little or no influence over the work of listed company charitable foundations ...

... indirectly they have been instrumental in their creation

We note numerous examples of such wealth creation in European listed companies, resulting in ultra-high net worth individuals. Shareholders are an obvious part of the process in such wealth creation through their funding and expect returns. Our observation would be that extremes of wealth entail greater public scrutiny, and the reputations of such CEOs become more heavily embedded in that of the firm.

Accountability for wealth can only further increase the scrutiny of such CEOs. Mark Zuckerberg made a highly publicised effort to show philanthropic "distribution" of some of his USD40bn gained since listing. The focus was immense and inseparable from a view of the business of Facebook itself. The work and investment patterns of foundations based on the wealth of CEO founders is thus one area of consideration in forming a view of how business can affect inequality.

Though CEO Founders are amply represented in the largest global fortunes, even estimates of many inherited fortunes depend on the value of the listed stock from which they originate (i.e. Walmart and L'Oréal heirs).

Does corporate philanthropy still have a place?

Philanthropy will have less material impact than a company's real business model effects on local communities...

...but employee volunteer programmes, corporate foundations, charitable giving and joint events can provide a more collaborative approach between business and local

While philanthropy will always take a distant place to material impacts of a business model or product, we take the view that certain community-focused activity does have a role to play in alleviating inequality. Our view is also that certain volunteering programmes where staff time is contributed can (under well-managed schemes) have a beneficial impact in the relations and outlook of staff, the employer and local communities. However, we emphasise that the damage of systematic aggressive tax avoidance in emerging economies cannot be undone with philanthropic and local community investment efforts, as the structures of government necessary for long-term self-sufficiency cannot prosper under such circumstances of budget deficits.

The position of philanthropy from high net worth managers and CEOs is an uneasy one. Some quarters of civil society have treated the endeavours of these "foundations" with scepticism. Tax breaks, especially in the US, account for some of the scepticism, as does a lack of transparency in some cases over spending and salaries of key staff.

Volunteer schemes – impacts on communities and employees

An example of "social cohesion" is in employee volunteer schemes (teaching basic skills, cleaning local areas, organising events, spending brief periods with the disadvantaged), where staff contribute directly to local members of the community and their surroundings. While the impact will usually lack scale in such a context, the act of establishing community links strengthens ties between a business and those outside it put in proximity to it. Intangible advantages to the business include improved employee morale, branding and community goodwill. Overall, license to operate can be enhanced through such an ethos.

Investment in employee volunteer schemes provide a bridge between business and local communities…

…with resulting brand impacts …

…Enhanced employee engagement for participants is another return on investment

Donations, whether through corporate foundations or other forms, also serve to enrich communities, but contextual data is critical in order to assess their impact. The most common form of criticism for donations is that philanthropy is a poor substitute for the same work provided systematically (not voluntarily) by tax funded state institutions. Thus, community spend may hide other areas of responsibility such as corporate tax payments, which if paid at aligned levels can contribute in a much more meaningful form. **Philanthropy has a less risky place in the value added distribution if charitable transactions at the local level are echoed through fair levels of corporate tax payments.**

Another issue regarding the philanthropy of foundations is their public policy influence and lack of transparency in their campaign agendas, and spending, where comparability remains difficult due to the lack of standardisation in this area.

Table 7: Top 9 US-based corporate foundations alone claim to have given over USD1bn+ since their inception

Name/(state)	Total giving, USD
Novartis Patient Assistance Foundation, Inc. (NJ)	452,981,816
Wells Fargo Foundation(CA)	186,775,875
The Wal-Mart Foundation, Inc. (AR)	182,859,236
The Bank of America Charitable Foundation, Inc. (NC)	160,479,886
The JPMorgan Chase Foundation (NY)	115,516,001
GE Foundation (CT)	124,512,065
The Coca-Cola Foundation, Inc. (GA)	98,175,501
Citi Foundation (NY)	78,372,150
ExxonMobil Foundation(TX)	72,747,966

Source: Foundation Centre

By asset, the Top 100 US Foundations represent over USD291bn, with the Gates Foundation accounting for USD41.3bn and the Ford Foundation USD12.3bn respectively (both have acknowledged inequality as an explicit area of their work). Foundation wealth originating from listed companies is particularly well represented among the largest foundations as a whole (Microsoft, Ford; J&J, HP, Kellog, Eli Lilly).

In highlighting inequality, the paradox is clear: such foundations exist only because of extremes of wealth. In our view, their role in combating inequality through impacting the opposing lower extreme of the wealth spectrum is important, even though shareholders themselves may have no influence over them. However, they are explicitly linked to corporate reputation and result from the wealth that shareholders have indirectly assisted in creating. They may also have large investment arms where SRI funds and asset allocation compatible with the aims of the foundation will usually be incorporated.

Table 8: Listed companies and founder/ CEO wealth creation

Name of CEO/Founder	Company	Country	Former or current CEO	Wealth or Net Worth (USDbn)	Market cap (EURm)
Amancio Ortega (Founding chairman)	Zara (part of Inditex)	Spain	Former	64.5	90367.32474
Liliane Bettencourt	L'Oreal	France	Father former founder	40.1	86924.62893
Bernard Arnault	LVMH	France	Current	37.2	78201.71112
Leonardo Del Vecchio	Luxottica	Italy	Current Chairman	20.4	25633.62665
Francois Pinault	Kering	France	Former	14.9	19383.87593
Hasso Plattner	Systems, Applications, Products (SAP)	Germany	Former	9.1	85897.0159
Klaus Tschira	Systems, Applications, Products (SAP)	Germany	Former	8.6	85897.0159
Vincent Bollore	Bollore Group	France	Current	5.6	10432.71067
Jean-Claude Decaux	JCDecaux	France	Former	6.7	7360.414581
Juan-Miguel Villar Mir	Obrascon harte Lain	Spain	Current	5.7	1464.217849
Peiere Bellon	Sodexo	France	Chairman	4.5	14019.31927
Stelios Haji-Ianou	EasyJet	UK	Founder / Former Chairman	1.76	8050.51
Guenther Fielmann	Fielmann AG	Germany	Current	4.4	5690.16

Source: Forbes, Kepler Cheuvreux

SRI Investors may use data built on the wealth of foundations from Gates (Access to Medicines & Nutrition), Soros (Publish What You Pay)

In the area of sustainability analysis where the use of ESG factors is central, such foundations have been pivotal. Two surveys widely used by investors related to rating and ranking corporate disclosure receive funding from the Gates Foundation: *Access to Medicines* and the *Access to Nutrition Index* (ATNI).

However, an example of the liability that can be attached to philanthropic activities associated with the company either indirectly through foundation activities or through sponsorship agreements is related to additional visibility given to any controversial activities. Oil and defence companies have been in the firing line for the sponsorships they pursue.

BP, for example, has been thrust into the limelight (in particular post Macondo and due to climate change) for its UK arts activities. Recently the Tate art gallery in London terminated its acceptance of BP Sponsorship. While we emphasise no official causation was given in relation to reputational impacts, clearly the institution had taken into account prolonged anti BP campaigning and activism, including the systematic surveying of Tate Members as to their views of BP sponsorship.

While the institutions themselves are to date largely supportive and make the case for the need for corporate funding, civil society has extended activism in this area. We are familiar with the greenwashing and "socialwashing" as a key risk within "CSR" activities, and now a new growing activist landscape has emerged related to "art washing" which responsible shareholders may usefully insert in any risk analysis of "community" contribution, license to operate and branding.

Corporate philanthropic activities cannot easily be separated from the corporate brand when reputational risk arises. The risk is enlarged firstly either through a magnification of pre-existing negative brand impact (BP & Macondo) through a new public channel (sponsorship of major galleries with logo publicity on advertising) which is intrinsically a part of counteracting such controversy or secondly through visible association with a tainted organisation (FIFA and its sponsors including Visa, Coca Cola, and Adidas).

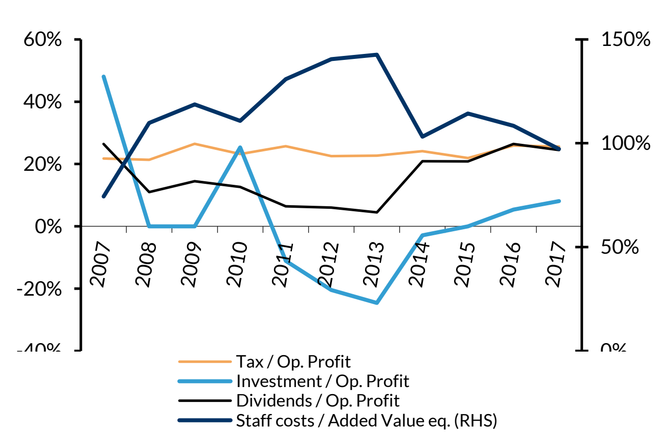
Value-added distributions: Kepler Cheuvreux universe

Taking the largest 200 companies (ex. Banks) by market capitalisation within the Kepler Cheuvreux universe, we track value-added distributions to stakeholders (see below). Over 2012-14, staff costs rose slightly faster than EBITDA, with a slight drop in capex during this period.

- During the financial crisis, capex (often taken as a proxy for real economy spending vs. financials) saw the fastest drop, with a subsequent recovery roughly in line with EBITDA.
- Taxes have been stable, but estimates through 2018 see a forecast increase but still below predicted aggregate growth in EBITDA.
- Dividends have been stable over 2011-14, after a 15% drop during 2008-09.

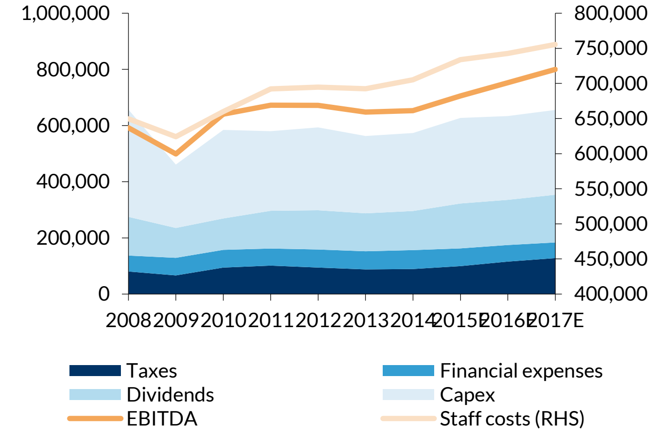
However, it is in the arena of our banks universe where we can draw clearer conclusions regarding the relative differences in distribution between employees, governments and investors. Staff costs were the biggest beneficiary over 2010-13 but have diminished significantly post crisis since 2014. Dividends also took a sustained impact during the crisis.

Chart 21: Post crisis staff costs biggest beneficiary (banks)



Source: Kepler Cheuvreux

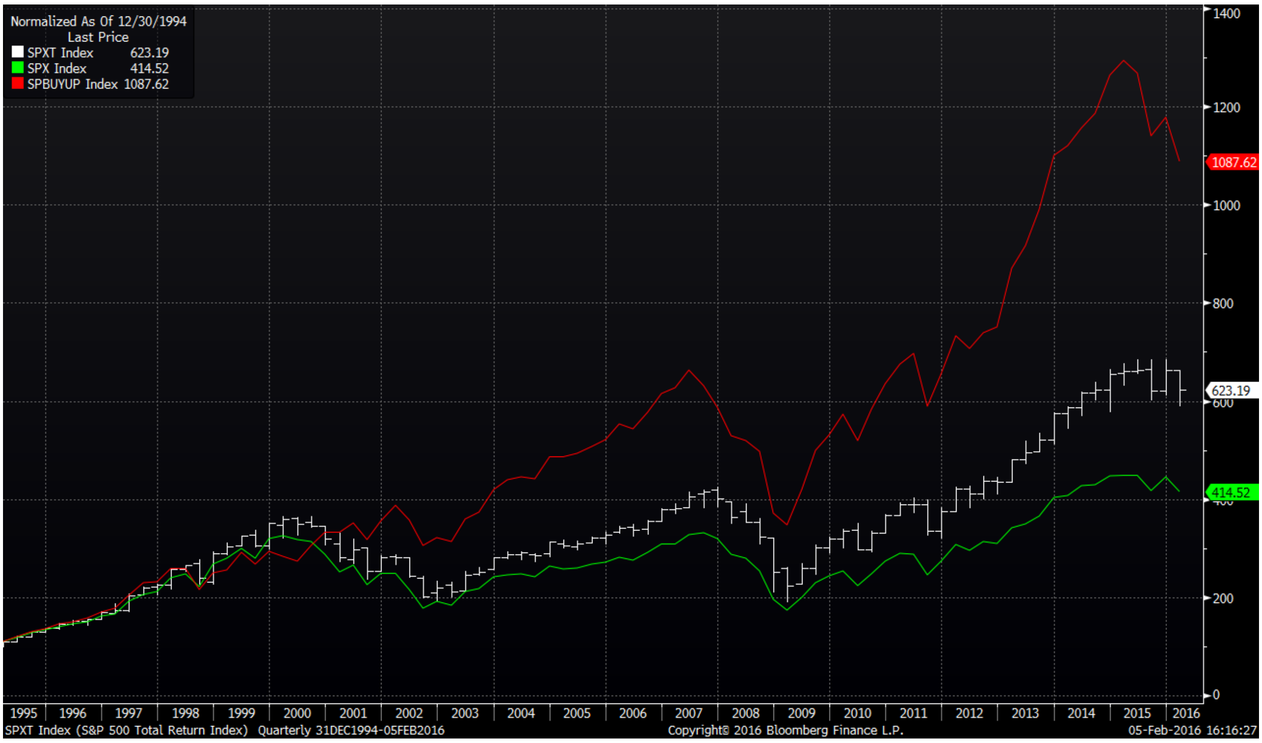
Chart 22: Large cap universe sees less extreme movements



Source: Kepler Cheuvreux

An important differentiator in shareholder returns between Europe and the US has been buybacks. The S&P500 chart below shows the supersized relative growth of buybacks in relation to price and total returns as a whole. This phenomenon has seen some momentum in Europe (which remains well behind the US in this practice). Certain argue that executive compensation programmes that use earnings per share growth and total shareholder return as performance measures may be one critical factor in decisions to use buybacks.

Chart 23: Distribution to shareholders - buybacks have been pivotal (S&P500 Index)



Source: Bloomberg

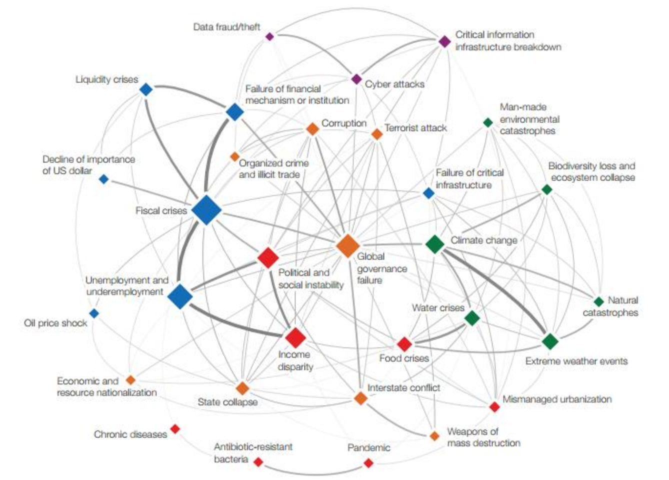
Measuring net impacts: a framework

The inequality portfolio is a set of interlinked thematics

The World Economic Forum saw income disparity as the top global risk over 2012-14. The interlinked relation of income disparity to a variety of other key global risks impacts the long term business landscape considerably. In the United Nations, SDG Framework Sustainable Development Goal 10 concerning inequality is clearly interlinked (directly and indirectly) with a variety of the other goals.

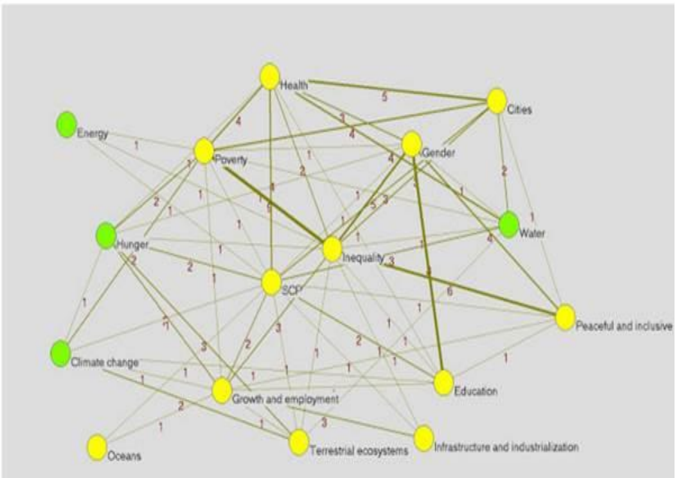
Furthermore, we note that migration has topped the list of WEF Global Risks concerns in 2016; evidently, this phenomenon in itself is inseparable from the global inequality theme, as it arises from explicit extreme social and income disparities resulting in mass movements towards economies perceived as providing the greatest opportunities.

Chart 24: WEF map- income disparity top global risk 2012-4



Source: WEF

Chart 25: Inequality central in UN SDG relational mapping



Source: United Nations

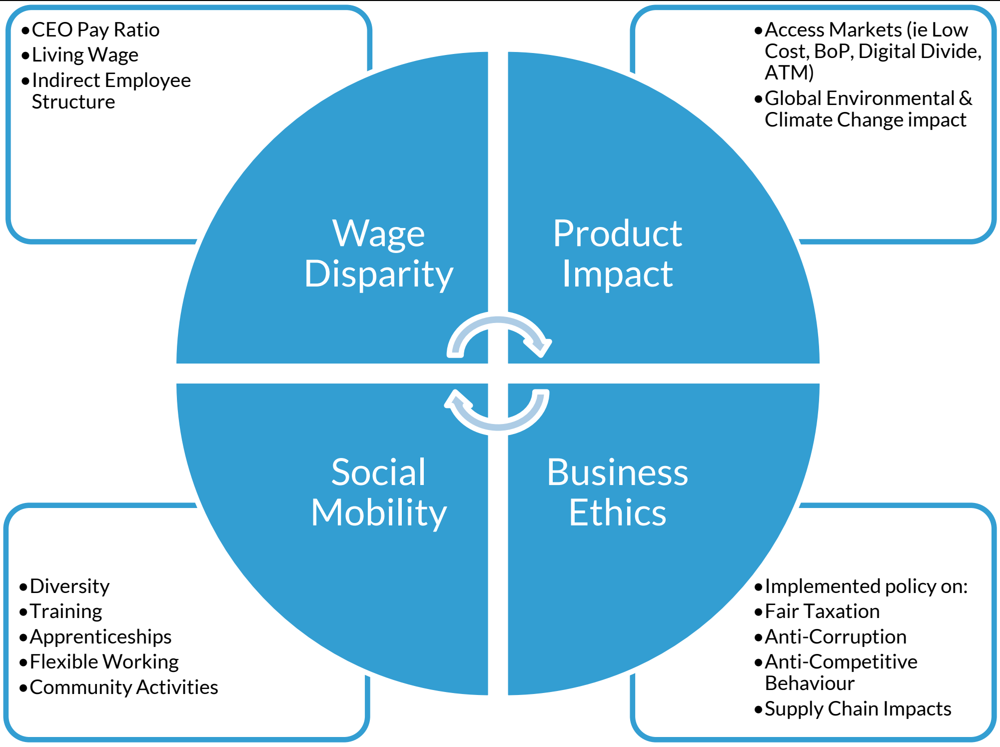
Our approach throughout this report is to split inequality into relevant variables that can be mapped onto the business models of large listed companies through their approach to pay, conduct, product, human capital and environmental impacts.

Table 9: Corporate practices - weighing the impacts

Increase inequality (-)	Potential to reduce inequality (+)
Aggressive tax avoidance	Products and services for underserved populations
Fossil fuel exposures	Creation of quality jobs
Business misconduct	Cleantech exposure
Excess executive rewards	Human capital investment (i.e. training/ reskilling)
Aggressive use of secretive advocacy to influence policy	Diversity and youth hiring
	Integration of sustainable supply chain practices
	Extension of in house employee policies to contractors (living wage)

Source: Kepler Cheuvreux

Chart 26: Four factors in preserving shareholder value, impacting inequality



Source: Kepler Cheuvreux

Our focus is on four main factors comprising dual effects of **greater long-term shareholder value *combined* with meaningful impacts on inequality:**

1. **Remuneration**: Wage disparities, including executive pay for "performance" - remain problematic but are designed to align the highest pay packages with performance. This can be in the interests of reducing inequality also by reducing unwarranted excesses of remuneration.
   Living wage criteria pushed by civil society and unions are now increasingly under the spotlight of good labour practice and in some cases policy makers (i.e. the UK and some US cities) follow this concept also. For listed companies, though the living wage is a source of short-term concerns on competitiveness, we highlight potential productivity gains to firms through reduced turnover and increased engagement.
   Large low wage segments in numerous sectors including retail, manufacturing and mining are already susceptible to numerous human capital risks. When this is combined with visible excesses of executive pay, it continues to be a recipe for increased risks to shareholders through potential labour disputes (which often reference executive pay), reputational impacts, and lowered levels of employee engagement.

2. **Social mobility*:*** Quality human capital investment increases social mobility of employees as well as returns to shareholders through business productivity gains. Key elements include diversification of recruitment practices to access the widest possible talent pool and also the application of family friendly policies and optimised training programmes to attract, retain and maximise the productivity of appropriate personnel. Social mobility results when sections of society less advantaged in the recruitment process are employed and given the opportunity to excel in skills development and

control over their careers. This extends into practices of gender, racial and disability recruitment practices.

3. **Business ethics*:*** Above all, the tightening of the regulatory environment has been a driver for this area, with each year producing new records for penalties across a variety of misconduct areas with major impacts on shareholder returns. But all misconduct, whether illegal or not, by nature has a social dimension, and in many cases we identify the infamously named process of "upward redistribution".
   Rent-seeking forms of price fixing for example, through collusion to restrict competition across numerous firms often have a disproportionate effect of poorer populations with the least disposable income in forcing them to pay more than free market conditions would entail. Simultaneously, the benefits of price fixing accrue disproportionately to executives in the firm, while the risk via litigation is foist upon shareholders. Numerous forms of misconduct follow this pattern and certainly corporate bribery is no different in depositing outsized payments to gatekeepers of contracts where those sums would normally reach government coffers, resulting in the potential provision of essential public services.
   We also include the supply chain as a criterion of impact: in many large global companies where production sites are present, a multi-tiered dispersed global supply chain is used which is often larger than the direct employee footprint of the company. Thus any ability to control wages, working conditions, and even environmental management of supply chains can also have a tangible impact on reducing inequality while simultaneously contributing to a long-term reduction in risks to the end purchaser.

4. **Product and service impact*:*** Numerous impacts are felt from products and services themselves, i.e. from their pricing particularly if they are essential goods. However, access also counts: the provision of healthcare and telecoms service (through the "digital divide") is as much an issue of creative private sector solutions as it is one of pricing and government policy (in the Access to Medicines Index criteria, pricing is only one of five equally weighted criteria used to score companies).
   Also highlighted are environmental costs, particularly in relation to climate change. History has shown that wealth accumulation has thus far been correlated to carbon accumulation. Our view is that those companies best positioned in emissions reduction and adaptation technologies are thus indirectly major contributors to a global balancing of the climate change narrative where the richest nations have historically been responsible for impacts which will be most fatally disruptive to the poorest populations suffering the extreme weather and sea level change impacts of global warming in the future.

We thus extend our analysis not just to income inequality but the counterpart of inequality of *opportunity* in which listed companies play several roles as employers, taxpayers, suppliers, lobbyists and large-scale purchasers.

Enabling social mobility and human capital

"You'll find work and I'll get promoted…Buy a bigger house and live in the suburbs" Tracy Chapman, Fast Car

Much has been written on human capital in the workforce: it is a given that an employer that maximises talent through relevant training, and recruiting from the widest available pool will be at an advantage. Another aspect is the wider scope of a company contributing to an increased labour skillset and allowing quality employees the opportunity to progress: this ability to increase skillset is tied to longer-term earning potential and therefore social mobility.

Both employee training and recruiting from the widest pool has potential productivity benefits and drives social mobility

Table 10: Key criteria for 'top employers' translates into enablement of social mobility

Criteria	Indicators
Primary benefits	Pay, pension, shares and other monetary benefits.
Secondary benefits	Provision of non-monetary benefits, such as leave allowance, flexible working and wellbeing policies.
Training and development	The initiatives and programmes that help an employee to grow in their role.
Career development	Talent management, succession planning and performance management for the long term.
Culture management	The facilitation of social interaction, employee input, diversity initiatives and social responsibility schemes that create a positive work environment.

Source: Top Employers Institute, Grant Thornton

A company's approach to human capital, affecting turnover, workforce morale and productivity, impacting associated costs. In care services, perhaps the sector which has been most vocal in its concern about the UK raised minimum wage obligations, a shortage of nurses has spiked a dependency on agency staff costing up to a 300% multiple of permanent employee pay.

Automation creates value but also extremes of wealth

A WEF report *The Future of Jobs* released this year envisages a worst-case scenario of technological change accompanied by talent shortages, mass unemployment and growing inequality. Reskilling is the viable solution to such a scenario and though government training and employment policy will be a major driver companies can act in their self interest in investing in reskilling for competitive advantage.

Automation has been intensely profitable for investors and business creators…

This report estimates a net loss of 5m jobs worldwide (2m gained against 7m lost) by 2020 as a result of technology advances in 15 of the key world economies (both developed and emerging). The areas where massive wealth is being accumulated and will likely accrue to the creators of automation technologies and scientific advances including artificial intelligence, robotics, genetics and internet applications. These are often those same areas where *labour* is the real loser unless retraining skillsets takes place.

…it has also accelerated inequality through the accrual of capital to those stakeholders at the expense of workers

…any retraining enacted by business counters this externality

While in these sectors innovation is rife and many instances of value creation are visible, so is the aspect of inequality where we see the displacement of labour with capital in the global economy and the premium for the most highly skilled technically trained employees rising.

However, an OECD study highlights that following the crisis the middle class have lost out, with the absence of new demand for semi-routine labour. Their finding is that it is the situation of the bottom 40% of earners (vs. the top 10%) that make the biggest difference to levels of inequality any destruction of such jobs that are characterised as semi-routine is sensitive, and some of them are clear targets for new automation technologies.

Non-standard work in low-paid sectors

Non-standard work is marked by decreasing job security through the increased use of part-time contracts, temporary and zero hours contracts with sometimes little visibility on contract renewal, duration or likelihood of a permanent contract offer. Increases in inequality levels have been influenced by a greater shift toward precarious working conditions. A key concern is also the lack of parity in the conditions offered to non-standard workers compared to permanent staff often for performing similar roles.

A shift toward nonstandard work has meant an increasingly polarised two tier workforce split between permanent and non-permanent staff

Such job polarisation has encouraged poorer labour conditions where non-standard workers are suffering reduced employment protection, safeguards and benefits. While temporary contracts lead more commonly to offers of permanent work, part-time work or self-employment status have tended to lead to more sustained conditions of precariousness, lower earnings and poorer work environments.

Investors lack the workforce disclosure data they need for a multitude of financially material factors

One of the primary challenges in assessing this area is the lack of data available. We therefore prioritise the disclosure of metrics such numbers of part time employed, median wage, independent contracts used, diversity breakdowns and age pyramid in the *Engagement guide* at the end of this report.

Education and training - the key to social mobility

In our 2014 report *Education: What are your kids up to?,* we identified numerous drivers behind a changing education services market. While education services are clearly a mobiliser of social and income equality, it is the one service that has seen the highest single level of inflation of any household purchased product at over 52% since 2005, according to Eurostat, reflecting both demand and in turn perhaps an increasing need for lower cost access. We therefore add this sector to those having the most impact on inequality alleviation globally.

Internal training for employees and upward career opportunities within a business are the critical drivers for social mobility. Corporate training itself is increasingly a customer of such distance learning whether through customised online schemes or access to broad higher education content via employee sponsorship.

Table 11: Examples of company training programmes enabling social mobility (upward movement of income & skills)

Company	Nature of Scheme	Conditions	Coverage	Value	Participation
Starbucks	4 years Online (Undergraduate degree Arizona State)	Employees working 20 hours a week, one year experience	Company-owned stores only (60%)	USD30,000 two year programme	2000
McDonalds	College Tuition Assistance	Employees working 20 hours a week	4% of eligible individuals	USD300-350 per class, typically two a year, or three for managers	N/D

Source: Company Sources, Kepler Cheuvreux

Diversity - casting the widest net for talent

"*Tackling job and wage discrimination of women will boost growth and equality*" OECD

Table 12: Gender diversity considerations in workforce inequality impacts

Area	Observations
Workforce pool	Having more women in the workforce lowers income inequalities
Impact of increased female workforce	More women in paid work means less income inequality, and in all OECD countries women's employment put a brake on increasing inequality
Low paid sectors potentially higher impact	Certain sectors include care services, hospitality and retail have majority shares of female low wage workers so increased minimum/ living wage policy is impactful for this group
Family orientated HR Policy including enablement of family friendly policies	Increased use of family orientated policy including flexi working, childcare benefits, enhanced maternity and paternity leave encourages greater recruitment and retention

Source: OECD, Kepler Cheuvreux

According to a recent McKinsey study, advancing women's equality could add USD12trn to global growth. Numerous sectors report growing emerging markets where untapped female consumers are a target. In October 2015, for example, insurance company AXA released a study identifying market potential for the industry at USD1trn across Brazil, China, Colombia, India, Indonesia, Mexico, Morocco, Nigeria, Thailand, and Turkey, with the observation that *"Women may be the largest growth opportunity in the world for the insurance industry"*.

Insurance sector responding to changing demographic

The impact of having insurance within this changing demographic has numerous implications for inequality; as well as reinforcing the overall wealth potential and upward social mobility for female clients, there is an additional element where education on financial risk is significantly heightened, and the potential risks of those households slipping back into lower income levels and poverty is at least partly covered.

Women in low wage worker segments

In many sectors living wage impacts a greater number of women than men

In sectors where women represent a large segment of the lower-paid workers, an increased minimum wage is high impact provided that other employment conditions do not change (no shift to greater precarity through increased temporary and reduced time contracts). However, the ability to access better-paid positions through companies that enforce non-discriminatory procedures and prioritise family friendly policies and relevant skillset training contribute to inequality more importantly by raising workers out of minimum wages.

Access to the widest talent pool possible clearly helps company returns, and those that incorporate a focus on egalitarian career progression, flexible working and other approaches to enabling human capital potential to be maximised. More specifically for companies, a McKinsey study concluded that "*companies ranking in the top quartile of executive board diversity, ROEs [returns on equity] were 53% higher, on average, than they were for those in the bottom quartile. At the same time, EBIT margins [earnings before interest and taxes divided by net revenue] at the most diverse companies were 14% higher, on average, than those of the least diverse companies.*"

Nobel-prize-winning economist Amartya Sen writes that women's progress in dual terms of social rights and integration into productive work was pivotal in China's economic progress. Particularly, certain emerging economies where structural and cultural barriers to inclusive hiring are present efforts by the private sector can be rewarded through increased worker engagement.

Gender pay disparity disclosure will boost workforce transparency

New legislation in the UK will require gender pay gap reporting from 2018. Requirements including mean and median pay disparities as well as the number of males and females by quartile of pay distribution. The first reporting period starts from April 2017 for companies with more than 250 employees. Though the government is set to publish league tables only by sector, as the information is public a variety of stakeholders are expected to aggregate company specific data and potentially produce rankings.

Gender pay disclosure could be scrutinised by a multitude of stakeholders not only with a view to equalisation but also potentially lawyers in discrimination suits

In the US amendments have been proposed to the EEO-1 Report which breaks down workforce data, to also include gender pay disparity. The proposals make clear that one objective is to "discern potential pay discrimination". Ramifications for companies and investors include therefore not only major reputational risks with accompanying impacts on ability to recruit and retain but also legal risk with the possibility of such data being used in lawsuits.

Family-friendly to maximise workforce participation and inclusion

Family-friendly policies can impact recruitment and retention in all sectors and workforce segments but have become differentiators particularly for employers with larger skilled workforce contingents.

Table 13: Family-friendly policies- examples from skilled employee sectors

Facility	Examples
Flexible working arrangements	Bayer: Up to ten days' paid leave to provide emergency care for family members Sanofi: Flexible working arrangements include working part-time, from home, on a flexible schedule and additional leave
Maternity and/or paternity leave	Telefonica : Supplements maternity allowance up to 100% of the net salary of certain employees Vodafone : Maternity policy provides mandatory minimum maternity benefits across all our markets, "including 16 weeks' full pay followed by full pay for a 30-hour week for the first six months after employees return to work" Bayer: Enables both men and women to take parental leave
Childcare	Telefonica childcare bonuses
Nursery or crèche facility	Telefonica Spain HQ (10,000 employees+) crèche service for eligible employees

Source: Kepler Cheuvreux, Company Sources

Youth opportunity and long-term human capital impact

"The risk of income poverty has shifted from the elderly to the young" OECD

A key emerging area of inequality has been that of youth opportunities, and this has been a special focus in developed markets where demographic changes as a whole have seen a shift towards a growing, ageing population. There is a window at school-leaving age, usually between the ages of 16 and 25, which is considered critical in terms of establishing lifelong career trends. Governments have a key role to play here by incentivising youth training and recruitment programmes (beneficial conditions for employing apprenticeships), but certain companies have focused on opportunities in terms of recruitment with this demographic. In the UK, where the raised minimum wage standards apply to over 25s, there are also greater incentives to hire below this age due to cost considerations.

Geographically, the US and the UK have the highest child poverty rates of richer countries, and this ties in with their relatively poor GINI overall performance on equality for peer countries. Child poverty rates in the UK (25.6%) and the US (32.2%), are at the highest end of the poverty scale for OECD nations.

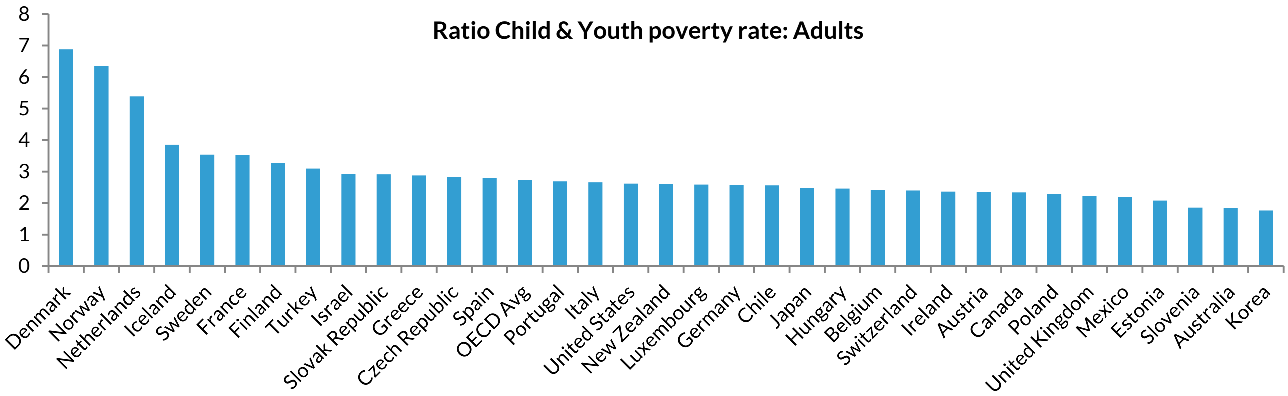
However, it is noticeable that even in countries where poverty is at its lowest globally, youth and child poverty causes the highest concern, compared to adult levels of poverty (e.g. Denmark, where youth poverty is showing the fastest increase, and Sweden, where overall poverty has seen a significant rise from a low base, including the child poverty rate).

While such areas require much more than private sector involvement to rectify, businesses play a major indirect role in the externalities they contribute to. As employers, any skew towards low-paid non-standard work increases precarity, which is shown to exacerbate the effects of youth and child poverty where carers are negatively affected.

The family-friendly policies mentioned in the prior section on gender diversity assert some degree of flexibility for carers with children and can also have a positive impact on certain low-income households in aiding parents to enter and remain in the workforce, with multiple benefits for youth and children.

More indirectly, aggressive tax avoidance can be one factor contributing to the budgetary deficits that lead to cuts in childcare spending, education and youth support required to counteract the large-scale rises in poverty affecting the young. Fiscal policy takes note - a bank tax proposal in Sweden targeted raised spend to restrict preschool class size, and the UK 2016 "sugary drinks" tax doubles funding for sport in primary schools.

Chart 27: Youth and child poverty rates a key issue in those countries with least inequality (low Gini coefficient)



Source: OECD

Table 14: Youth employment: a long-term human capital opportunity and a restraint on the inequality cycle

Tool of Inclusion	Business upside	Inequailty reduction	Good practice
Apprenticeships	Though government policy can influence such contract types companies can benefit from creating long term relationships and employees who have received customised training	Opportunities for younger workers to develop skillsets enter them into a lifelong cycle of economic contribution	Largest Capital Goods Sector firms including Siemens
University Partnerhsips (incl Scholarships & Funding) & Graduate Recruitment Schemes	Aids targeted branding of company, secures skilled employees	Brings generally youngest and most academically able into workforce particularly where university net is cast outside a small group of elite universities	Large European pharma companies have leveraged university partnerships through funding of higher studies, clinical trials, and graduate recruitment
Internships	Access to high calibre candidates	Enhances profile and skills of employees and can be transformative in terms of subsequent career opportunities, however prone to overuse and sometimes a substitute for real hiring	Numerous skilled sector employers

Source: Kepler Cheuvreux

In all sectors, skilled workers will usually be the target of some recruitment efforts. Graduate recruitment, especially where carried out in conjunction with internships open to the widest possible graduate base, is a long-term positive in human capital, branding and productivity. As employers compete for the best students, the most renowned universities are a natural attraction, although a broader profile of institutions leads to the benefits of a broader profile of experiences and backgrounds. One argument forwarded when productivity declines is that the most skilled are not where they need to be in terms of the economy. Those companies with optimised graduate schemes tap a long-term flow of talent into the company as well offering those employees clear upward social mobility through improved skills.

Businesses that don't address "working poverty" could suffer reputational damage as well as productivity and turnover impacts

For the service sector and other low income segment employers "working poverty" is a concern , and business can alleviate pressure on employees in this category through living wages, standard (not zero) working hour contracts for stability, and some degree of family-friendly HR policy. One allegation against UK retailer Sports Direct which suffered a raft of governance and labour controversies was that local children of factory employees (often on zero-hours contracts) remained at school when sick, as parents feared discrimination or dismissal for requesting time off work. Another allegation was that net pay amounted to less than the statutory minimum wage due to obligations for extensive anti-theft security searches upon exit of premises. Such allegations are common in supply chains in developing markets.

The proliferation of branding in the employer area highlights that as well as increasingly being a scrutinised area that actively affects employee choices, a company may undertake marketing actions that extend well beyond HR and recruitment exercises (see below) but strengthen the company brand as a whole.

Table 15: Human capital and branding

List name	Sponsor	Country	Area of human capital	Key measurement
Universum World's Most Attractive Employers	Universum	Global	Various	Nominations by students, employer branding perception
America's Best Employer	Forbes (with Statista)	US	Satisfaction at work, Attracting, Developing, and Retaining employees	Satisfaction at work
Working Mother 100 Best Companies	Working Mother Research Institute	US	Working mother representation and dedicated policies	All areas of work life, including leave policies, workforce representation, benefits, child care, advancement programs, flexibility policies, etc.
The Times Top 50 Employers for Women	The Times	UK	Gender equality	Internal and external processes promoting gender equality, diversity and inclusion/opportunities for women
DiversityInc Top 50 Companies for Diversity	DiversityInc	US	Diversity (blacks, latinos, Asians, women) in every aspect of the human capital subsections	1)Talent pipeline (workforce breakdown, recruitment, etc.) 2)Equitable Talent development (mentoring, philanthropy, etc.)
40 Best Companies for Diversity	Black Enterprise	US	Diversity in employee base, senior management, supplier and board of directors (broad focus on ethnic minority groups)	Efforts directed towards women, disabled, veterans and LGBT
Great Place to Work	Great Place to Work	45 countries	Satisfaction at work (credibility, fairness, respect, pride and camaraderie)	Trust - measured through the Trust Index survey, and a Culture Audit
The best companies to work for in America	Business Insider & PayScale	US	General list	6 criteria : High job satisfaction, low job stress, ability to telecommute, high job meaning, experienced median pay, total cash compensation and salary delta (pay counts double in the calculation - methodology double-weighted experienced median pay/total cash compensation to stress the importance of companies that pay their employees well)
Canada's top 100 employers	The Globe and Mail	Canada	General list	8 Criteria : Physical workplace; work atmosphere & social ; health, financial and family benefits ; vacation and time off; employee communications ; performance management ; training & skills development; community involvement
The Times Top 100 Graduate Employers	The Times	UK	Talent retention	Graduate opportunities
Glassdoor Employees' Choice Awards for the Best Places to Work	Glassdoor	US large caps US SME Canada UK France Germany	Satisfaction at work	Employees are asked to fill in a survey capturing their overall job & company satisfaction, as well as qualitative insights into the best reasons to work at their company + what improvements are needed

Source: Kepler Cheuvreux

Business ethics, misconduct and socio-economic impacts

In this series of reports, our view has been for some time that shareholders who think the impacts of misconduct can be attributed to the costs of doing business may need to rethink. Aggressive tax avoidance, mis-selling, market manipulation and corrupt payments have been vehicles that have systematically contributed to the most damaging aspects of the increase in inequality. Shareholders have not been spared from the results of misconduct, quarter after quarter earnings announcements continue where litigation (much of which contributes to the direct backdrop of social and income inequality) pushes down shareholder returns. In the US, bank penalties have exceeded USD200bn since the financial crisis alone and shareholder costs are by no means over.

Business misconduct has a significant social impact including the ability to prolong and exacerbate cycles of income and social inequality. We examine those areas where there is also a dual effect in placing additional risks on shareholder value (particularly in the long term). These comprise corporate bribery, anti-competitive behaviour, and most materially aggressive corporate tax avoidance.

Snowball effects of systemic impacts resulting from misconduct on inequality

Banks have been a cause of the rise in inequality since the financial crisis

The banking sector's misconduct has the most amplified role in income inequality through systemic impact (i.e. via G-SIBs or Globally Systemically Important Banks). Incentive pay in financial services is a core issue in reining back the systemic effects of failed risk-taking. Implicit guarantees afforded to the sector through possible "bailouts" or emergency funding also granted a privileged position to some of the largest institutions in the sector which few other industries could imagine.

The burden on the tax payer as a result of emergency government funding (and the resulting deficits where budgets are moved from essential services to such funding – resulting in "austerity") further exacerbated the negative redistributive effect. The impacts of global financial services' practices are felt well outside the physical restrictions and geographical locations of its customers and staff.

The financial crisis created an inequality-driven political mandate against the banking sector

The capital and income gains accrued as a result of the misconduct which led to the financial crisis have clearly created a global political mandate to restrict banks, including via the reform of bailout rules which have now resulted in new "bail in" structures of funding for banks and investors. Inequality has been a driver in this mandate, as the perception has remained that gains accrued to executives and senior risk takers have come at the cost of other stakeholders as a whole (particularly low and middle income consumers).

Accountability for transactions – lax KYC propels inequality

A second area we highlight is the role of banks in facilitating and maintaining transfers of wealth which have a large impact on inequality: for example in money laundering, corruption or certain sanctions violations (e.g. South Sudan) where banks are charged with lax AML and KYC procedures.

According to the NGO Global Financial Integrity (GFI), illicit flows of capital from developing countries (to include a variety of misconducts including tax avoidance and bribes) were valued at USD991bn in 2012. They estimate that 45% of these flows end up in offshore centres and the remaining 45% in developed countries. The impacts of poor business ethics are of course not solely limited to emerging markets.

Corporate misconduct tends to have a distributive effect…

…and it tends to be upwards (to the richer segments of the population) until prosecutors step in…

…at which point shareholders pay costs perhaps disproportionately

In the recent FIFA scandal, we have also seen some political will in the US to examine the role of banks via poor KYC and AML due diligence in accepting demands for transactions which appear to be based on bribe payments.

Tax minimisation – aggressive forms sustain wealth disparities

Third, we draw attention to banks' explicit role in facilitating tax minimisation for both high net worth clients and other financial services firms. Obvious impacts on inequality include the withdrawal of funds from tax receipts used by governments for essential services transmitted to high (and ultra-high) net worth clients. Private banking has seen some large penalties as a result and the litigation is by no means lacking in momentum. The largest single fine to date was attributed to Credit Suisse in the US at USD2.8bn, but both UBS and HSBC have suffered demands for 'bail" by the French courts in excess of EUR1bn in their ongoing cases in that country. A number of smaller institutions have also been fined, with the US taking the lead on litigation, as usual.

Table 16: Business ethics continues to affect shareholders and global inequality

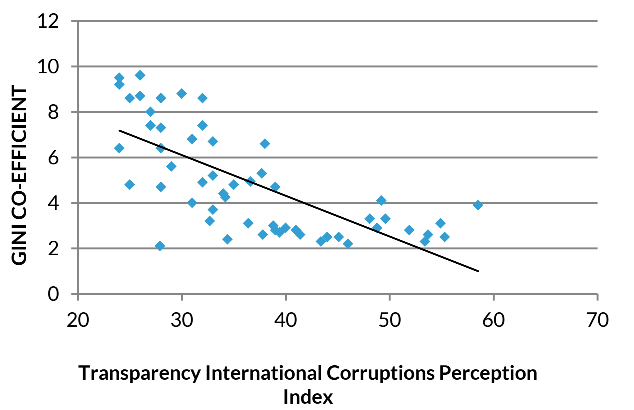
Business ethics	Inequality impacts	Shareholder value impacts
Bribery	A redistribution of funds intended for public coffers including the poorest flowing to a select few, often the wealthiest. State institutions underfunded and undermined as a result.	Numerous cases of litigation globally, contract losses, license to operate & reputational impacts
Aggressive tax avoidance	Diminished tax receipts jeopardise essential services. State institutions underfunded and undermined as a result.	Increased risk of litigation, reputational, overall movement to reduce tax arbitrage loopholes
Anti-competitive behaviour	Price fixing and abuse of dominant position disproportionately withdraw from disposable income levels of the poorest, in some cases a redistribution effect will take place with executive pay directly inflated usually whether the misconduct is prosecuted or not	Increased risk of litigation, reputational, overall tightening of regulation

Source: Kepler Cheuvreux

Corporate bribery: distributing wealth upwards

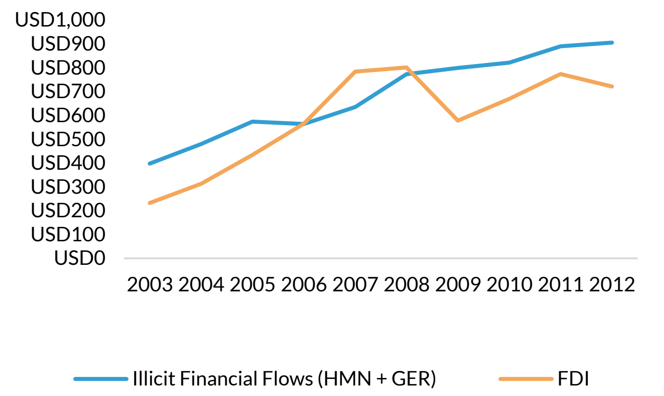
Illicit payments by developed-market players received in poorer countries distort economic decision-making to the disadvantage of the poor and divert substantial funds often earmarked for public use into private hands (funds that largely end up offshore as they need to remain hidden).

Chart 28: Higher corruption tends to correlate to inequality



Source: Kepler Cheuvreux, Transparency International

Chart 29: The rise of illicit financial flows (USDbn)



Source: GFI

Squeezing the poor: anti-competitive behaviour

In our report entitled *Antitrust and cartels: From Cooperation to Collusion*, we analysed this area demonstrating emerging but under-examined investor risk. Poorly enforced M&A which allows industry behemoths to emerge, price fixing, and restrictive approaches to intellectual property have been a tricky issue for responsible business. Price fixing in particular (a form of anti-competitive behaviour common in many sectors) not only restricts innovation and the free market but can have a disproportionate impact on the poorest consumers even in the richest countries, thus increasing the impact of inequality.

Poorly enforced M&A allowing industry behemoths to emerge, price fixing, and restrictive approaches to intellectual property have been a tricky issue for responsible business. While every investor will rightly want their holdings to have a competitive advantage, discerning whether these have been based on innovation, management quality, and superior product and service levels rather than secretive and potentially illegal collusion remains very difficult ahead of any litigation results.

As well as hitting pockets a lack of transparency or misleading pricing undermines consumer trust and hurts brand value

Where large near-monopolies or cartel behaviour emerges, innovation clearly suffers through the artificial raising of barriers to entry. Examples of this are present in fast-moving consumer goods markets, where entire ranges of specific products from low-budget brands to well-known brands have their prices increased through secretive and restrictive agreements. We see this area as a rising risk to investors through the increase in litigation emerging globally against this type of misconduct. Furthermore the EC and national authorities continue to propose a strengthening of its regulation on anti-competitive behaviour, including the enabling of damages claims for injured parties (see for example the UK Consumer Rights Act, October 2015).

Furthermore, price discovery is an issue in certain cases. Tesco was fined GBP300,000 in 2013 for false consumer claims about discount pricing ("half-price" deals) in the UK in its supermarkets. Specifically *trust* was cited as an issue in the judgement, thus as well as impacting consumers who may be low income the industry as a whole has the potential to be undermined as consumers lose faith in claims linked to pricing and greater public suspicion of larger businesses as a whole.

Table 17: The «free market»? Competition affects inequality

Competition Issues	Inequality Impacts
Artificial raising of barriers to entry	Restriction of innovation, management quality, and superior product and service levels.
Price fixing and cartel behaviour	Negative effects on disposable income of poorer populations of price fixing, restrictions to bringing low cost products to market
Lobbying processes	Concentration of political power with the largest market participants and disproportionate leverage with policy makers at the expense of other stakeholders
Margin squeeze	Where consumers receive cheaper pricing producers (i.e. low cost supply chain) or creators (Amazon) may be squeezed with the margin effects also accruing disproportionately to management
Industry giants created primarily from M&A	Post-merger price increases
Non-pricing misconduct	Agreements to restrict hiring (Apple and competitors) or wages

Source: Kepler Cheuvreux

Tax: inequality's pivot point

"*You multinationals stand ready…It's over.*" Director, OECD Center for Tax Policy & Administration, Pascal Saint Amans, 2014 – on tax avoidance by MNEs

Aggressive avoidance of tax is not only an increased litigation and reputation risk, on which the market still has insufficient transparency; it is also the single biggest instrument of redistribution of wealth globally with the largest potential impact on levels of global and national inequality.

We would identify tax avoidance as the single biggest contributor to inequality which large listed companies enable

In our report *Tax me if you can: game over?*, we examine in detail the current tightening of regulation and enforcement of tax minimisation by companies. Civil society and the general population have called for a re-examination of "the social contract" between big business and society, and governments have indeed used this angle to justify some tax reforms.

The share of corporate income tax has not risen in line with corporate profitability…

…individual income and indirect taxes have risen disproportionately compared to the wage share

In the last two decades, large multinationals with globally mobile capital have been able to exert unprecedented influence on the levels of tax paid in particular territories. Corporate tax liabilities are reduced through a variety of complex arbitrage techniques between countries utilising loopholes in thus far harmonised tax code systems. The challenge lies in the fact that tax systems were largely set up in an area of national trade and are currently no equipped to deal with the capital mobility that globalization entails, alongside the ability for income and capital disparities to be enlarged as a result of the velocity of such transfers.

Additional tax accountability benefits shareholders

Previous financial crises have all retained an element of *lack of transparency*, from the Enron scandal at the beginning of the millennium (where off-balance-sheet accounting was validated by a prominent auditor) to more recent mortgage securities scandals (where transparency on securities packages was lacking for major investors). While the tax angle differed in all of these scandals, and no doubt the responsibility of governments themselves through policy reform and enforcement is critical, a view of real tax liabilities is ultimately lacking for investors.

While the tax *avoidance* systematically practised by a large number of large-cap companies is currently legal, it is increasingly becoming the tax *evasion* of tomorrow, as the boundaries of legality are being questioned. The ongoing lack of disclosure by global large caps threatens to inflict significant damage on longer-term shareholders given the strengthening of political will to enforce against tax minimisations in its most aggressive forms.

Tax havens: inequality's little helper

The key area where disclosure is lacking is understandingly on the use of "tax havens". According to NGO Tax Justice Network (TJN), such banking secrecy jurisdictions hold USD21-32trn, equivalent to *a third of all global wealth*. Many estimates are available for how much tax could be raised by reducing the functionality of tax havens: TJN maintains that a potential USD189bn in revenues could be made available by releasing (often undisclosed) capital from tax havens.

Regarding corporate tax, OECD BEPS itself takes place in an unstated backdrop of increasing social inequality, with the idea of "redistribution" and "fair share" intrinsic to its functioning…

The OECD BEPS programme, the major initiative in terms of a global reach in reducing corporate tax avoidance, focuses on a number of areas, of which low tax transparency countries are central. Its own programme maintains that 4-10% of global corporate tax revenue is lost through profit-shifting, amounting to USD100-240bn a year. Restricting profit-shifting through low-tax jurisdictions is central to a number of BEPS objectives.

…It may be one of the major demonstrations that inequality is increasingly a central area of policy making

UK and US high on financial secrecy ranking

However it is not just the best known havens that facilitate tax minimisation: TJN's 2015 Financial Secrecy Index puts the US in third place in its ranking, behind Switzerland and Hong Kong. The ranking takes into account the size of the country as a global financial centre in its weightings.

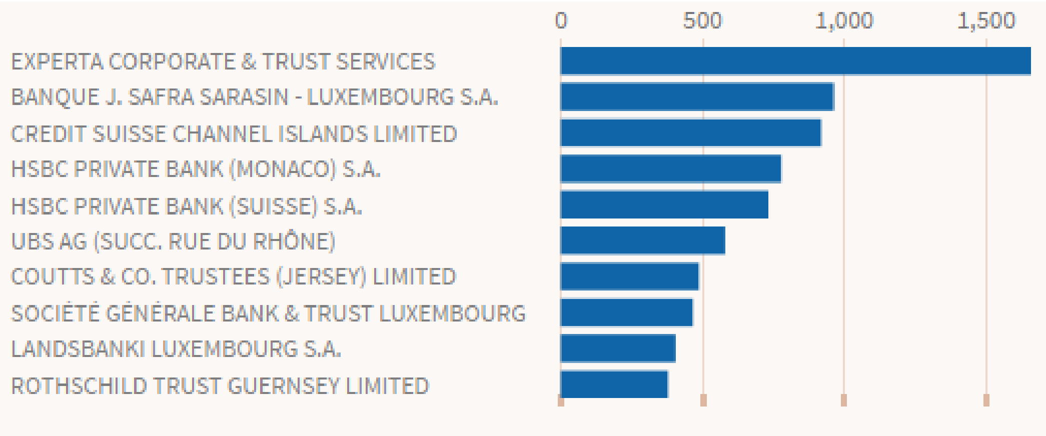
Job losses if governments raise taxes? …

We would observe that in the case of the US and the UK (which would be ranked first if the British overseas territories were aggregated), they are not only recipients of a high level of inequality versus OECD country peers (as referenced through numerous measures including their GINI coefficients), but they can facilitate inequality globally through their position as financial centres. In turn, large listed companies present on exchanges in New York and London (respectively the world's largest financial markets) commonly optimise tax minimisation through the use of low-tax regions also highly ranked in the Financial Secrecy Index.

…As evidence of the "race to the bottom", we note some of the lowest tax regions from the Caymans to Luxembourg have the fewest employees or net job creation

Like many other ESG-related areas, tax analysis is stalled by a lack of disclosure. Widely used economic measures do not take into account vast amounts of untracked transactions in tax havens. This is applicable to both ultra-high net worth individuals and corporate transfers, through profit-shifting. The banks sector remains particularly exposed as a facilitator of tax avoidance as a set of leaks in April 2016 from the ICIJ confirmed. It highlighted the use of Panama as a tax haven listing bank subsidiaries which had used a law firm based in the country for incorporations:

Chart 30: Top 10 Banks requesting most offshore companies for clients with Panama law firm (based on leaks)



Source: ICIJ

Low business tax and job creation: an uneasy relationship

The leverage that business sometimes uses in negotiations with governments who wish to move aggressively on business taxation policy is the threat of job losses. The logical conclusion is that those countries with the lowest tax rates should have highest production bases. ***Often it's in the lowest tax jurisdictions that fewest employees are found.*** Some evidence of this is available in CRDIV country reporting for European banks disclosing staff numbers in Luxembourg.

Tax lobbying…

…an area where leaks could cause reputational damage and raise the eye of tax authorities

Tax minimisation is a growing risk, as is lobbying for it

In our view, lobbying on tax policy issues by large listed companies threatens to become an increasing reputational risk. We expect business to inform policy makers, but given the rising strength of public (including consumer) sentiment and also political will from the entrance of international bodies such as the OECD, and the EU all forms of advocacy will face higher scrutiny. Where controversial tax incentives are suddenly withdrawn or worst still deemed illegal by the EU Competition Commission those companies that may have been their strongest advocates will heighten their own regulatory and reputational risks.

Chart 31: McDonald's – tax competition can be unhealthy

Source: Kepler Cheuvreux

Income inequality increases business human rights risk

For those companies operating in regions of high inequality, their risk of entering into human rights violations is increased.

For large global listed companies, most areas of human rights risk exposure are primarily based in supply chain areas. Emerging issues include treatment of migrant workers, land rights, and health issues that disproportionately affect poorer populations, women and children.

Table 18: Human rights – material investor themes rooted in inequality

Human rights areas	Description	Good practice
Migrant workers (unskilled)	Some movement in hard law (UK Modern Slavery Act 2015, California Supply Chains Transparency Act) , but restricted primarily to transparency on policy	Hewlett Packard CATSCA policy
Arms & defence use	UN Voluntary Principles on Security & Human Rights	Norsk Hydro
Health issues affecting poorer workers (esp. EM Supply Chain) : e.g. AIDS	A key issue affecting certain areas, i.e. East Africa, South Africa	Unilever, RD Shell
Land Rights	Absence of enforceable global hard law has meant use of soft law schemes such a s OECD Guidelines with numerous (100+) complaints which reference land rights – i.e. forcible eviction and other forms of displacement, degradation, violence against local communities	Coca Cola - zero tolerance for land grabs, engagement in supplier principles
Responsible mineral extraction	Some movement in hard law (Dodd Frank 1502, EU proposals), but restricted primarily to transparency on policy. Audits on suppliers beyond Tier 1 a key area where companies are very weak	Philips - Conflict Minerals policy

Source: Kepler Cheuvreux

Regulatory movement on supply-chain disclosure has begun

Legislatively, some momentum is building, through for example the UK Modern Slavery Act, introduced this year, and the California Supply Chains Transparency act which has been active since 2010 and Dodd Frank 1502 (Conflict Minerals) requiring transparency on supply chain due diligence. The currently proposed US Business Transparency Act would require companies with global gross revenues of USD100m+ (listed and private) to reveal measures on alleviating risks of forced labour, human trafficking and child labour in supply chains.

US Supply Chain disclosure regulation on conflict minerals requires an investigation of lower tiers of the procurement chain…

…this trickledown effect is central in addressing drivers of inequality firstly by reducing opacity as to origins components

Conflict minerals: supply chain factors exposed

The trade in minerals originating from conflict zones has a become an area of enlarged supply chain risk both from operational disruptions and more so from reputational concerns of being associated with the trade and the emergence of regulatory risk related to disclosure requirements. Since the US Dodd Frank 1502 regulation listed US companies (particularly global brands) have begun to assess geographical origins of metals used in greater detail in deeper Tiers of the supply chain.

Non US companies have been on the receiving end of the legislation through the requirements upon them from their major US purchasers to furnish their supply chain in order for the US end purchasers to comply with DF1502. This trickledown effect in purchasing tiers may be in its infancy but is a central means addressing the supply chain impacts of inequality globally through the high degrees of opacity as to the origins of widely used minerals.

Chocolate: consuming the worst forms of global inequality

Child Labour is an ongoing issue in the cocoa supply chain. Confectionary manufacturers in the USD100bn chocolate industry have leveraged lower-cost sources which have brought with them multiple inputs from inequality. Several labour themes emerge as being both risks to supply and reputation. Child labour for example often overlaps with the trafficking trade linked to supplying fields with labourers. An ILO study found that out of 21m global victims of forced labour, an estimated 5.5m are children.

Particular areas of concern are in health and safety where dangerous tools are used in harvesting. Responses from the sector have included cooperation with the International Cocoa Initiative, monitoring and remediation systems and an increased focus on female participants in the labour force (i.e. from Nestle) which improves productivity.

Global migration: an engagement standard for investors

Based on the UN Guiding Principles on Business and Human Rights and developed by the Institute for Human Rights and Business the Dhaka principles form a solid basis for investor engagement with large listed companies on this theme.

The Dhaka Principles provide a template for investor engagement on migration risks

The Dhaka Principles detail ten areas covering non-discrimination and employment law protection for business to follow, and numerous OECD complaints have resulted in successful pressure being exerted on global companies to adopt more controlled oversight of subsidiaries and subcontracted areas (the Bolloré OECD case was a noticeable example of cooperative momentum as a result of such a "specific instance" since 2010 against alleged labour violations of Cameroonian plantation workers).

Table 19: Dhaka principles for migration

	Principle
1	No fees are charged to migrant workers
2	All migrant worker contracts are clear and transparent
3	Policies and procedures are inclusive
4	No migrant workers' passports or identity documents are retained
5	Wages are paid regularly, directly and on time
6	The right to worker representation is respected
7	Working conditions are safe and decent
8	Living conditions are safe and decent
9	Access to remedy is provided
10	Freedom to change employment is respected, and safe, timely return is guaranteed

Source: Dhaka Principles

Security sector: direct risk exposure to migration theme

The privatisation of security services problematises the responsibility for human rights, shareholders now share those risks

Direct risks have been focused on security services through companies such as Sodexo and G4S. The Ethical Council of the Swedish Government AP-pension funds has engaged with Sodexo regarding allegations of inhumane treatment at a UK immigration centre since 2006. G4S has also run immigration detention centres in the UK, reportedly receiving over 48 complaints of assault in 2010, of which three were upheld. It lost a deportation contract in 2010 after a detainee lost his life after allegedly excessive restraint. Shareholders have pushed for increased due diligence and implemented adherence to the UN Guiding Principles on Business and Human Rights in order to better combat such risks.

As well as security services companies such as G4S, Prosegur and Securitas security systems providers such as Dorma Kaba and Assa Abloy have exposure to the theme both to the opportunities (including new state and local government contracts) and risks via reputational association to any migration related controversies.

Human trafficking has been the subject of litigation against global business

US military contractor KBR was the subject of a lawsuit in 2008 by 13 men initially recruited in Nepal to work in hotels in Jordan. Subsequently, they were trafficked to work in Iraq at a US military compound, after their passports were confiscated. With 12 of the 13 men killed by insurgents, a case was brought under the US Alien Tort Statute.

In 2005, a case (which has not yet been concluded) was bought against Nestle, Archer Daniels Midland and Cargill by an NGO representing three children from Mali who claimed to have been victims of both trafficking and child labour. The ongoing merit of the case stands in part on the universal prohibition against slavery.

However, though hard law is still limited in this area, soft law frameworks have proliferated, presenting a higher materiality for any consumer-facing business with intensive supply chain activity in riskier territories. The grievance mechanisms of some globally applicable frameworks such as the OECD guidelines increasingly have some ability to cause reputational damage to companies (and investors) cited in the "specific instances" or complaint investigation process. (See Soft Law Violation & Liability). The Ruggie Principles implementing the UN "*Protect, Respect and Remedy*" framework for business continue to find traction and include a variety of implementation criteria rather than just pure statements of commitment.

An adjunct in this area of human rights risk is related to the use of armed force. The UN Voluntary Principles on Security and Human Rights has emerged as the standard which business and investors can use, and it's all the more critical as often legislative enforcement is piecemeal if it exists at all.

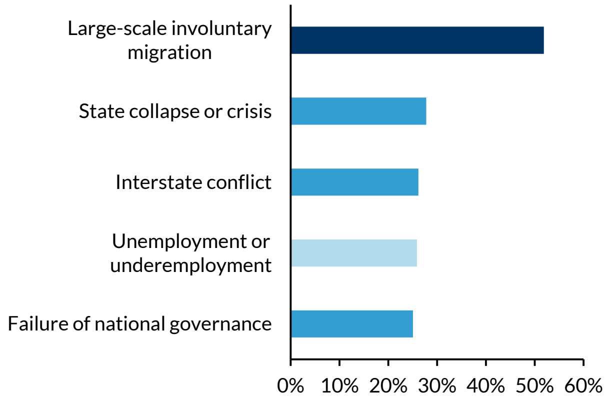
Industries ranging from agriculture, leisure catering, hospitality, construction, and logistics have all made use of sub-contracting where human trafficking can enter.

European migration: emerging risks

The emerging risks on migration issues originate not only from new regulation (the UK Modern Slavery Act) but also soft law frameworks where alleged violations can also lead to often quite public challenges of non-compliance, which result in risk to reputation and the operational disruptions that can result.

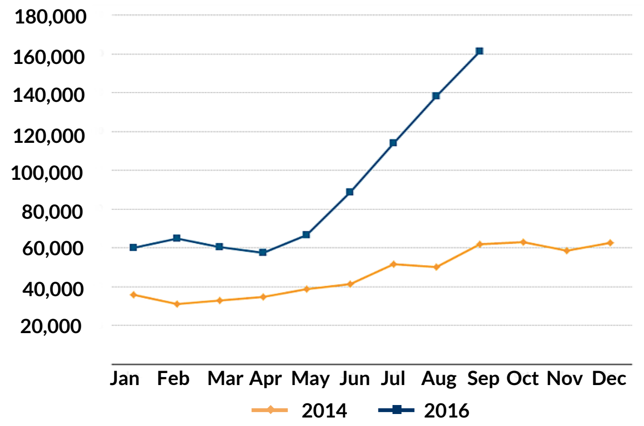
The legal status of "asylum seeker" by nature stems from inequality – an extreme disparity in opportunity and human rights conditions. Whether from extractive rich regions such as Syria, Iraq and Libya where wars (civil and otherwise) have destabilised the economy, or other regions where socio-religious discrimination or political opposition leads to fatalities, Europe has seen a controversial surge in migration.

Chart 32: WEF largest risks for next 18 months



Source: WEF

Chart 33: First-time asylum applicants EU28 countries

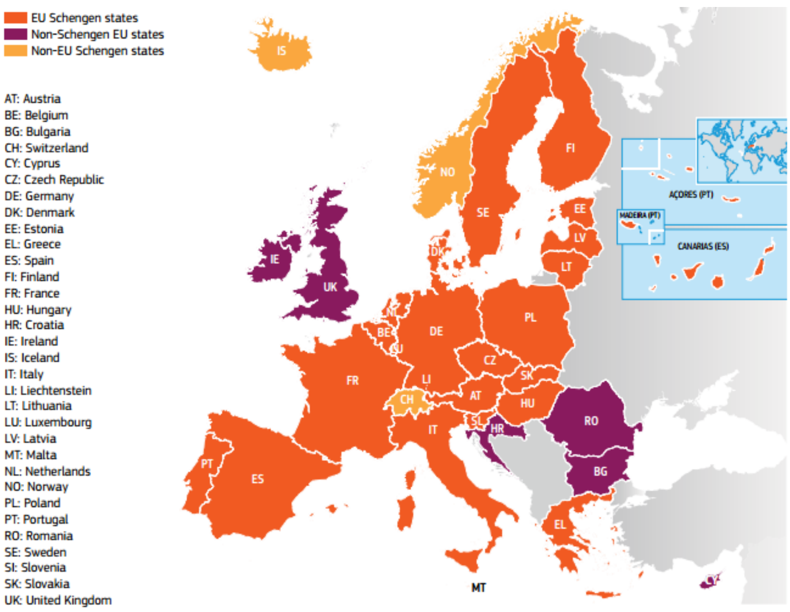


Source: Eurostat

While a level of economic migration has always been present due to the perceived difference in opportunity geographically on potential future income levels and living standards, current levels are unprecedented.

Sectors with exposure to seasonal labour use (including agriculture, catering, construction, manufacturing and hospitality) have the high migration risk exposure. The risk for companies in a variety of business contexts (from hotel staff to building site workers) is visible through suboptimal production, labour disputes, operational disruptions, resource limitations and also reputational impacts from being implicated in glaring inequalities (e.g. the Qatar 2022 project amidst allegations of systematic mistreatment of migrant workers and allegations against numerous contractors including Vinci).

Chart 34: Schengen Area



Source: EC

Consequences such as border control (eight of the 26 Schengen nations have reinstated some border checks since September 2015) and the resulting restriction of trade have negative impacts on certain sectors. We note some key indirect impacts as a result of migration in the table below:

Table 20: Business impacts – migration leading to European border controls and trade restrictions

Increased border controls	
Road freight & logistics	Overall increase in costs, administrative burden, increased risk of stowaways
Food: perishable products	Increased costs from time over border, potential wastages, industrial action due to increased pressure on transport staff
Airport	Impact on retailers from reduction in passenger flows (or reduced time to spend due to increased security), though cost burden of border control personnel and IT reconfiguration to fall on state
Tourism	Potential deterrent with resulting impact on Retail, Transport & Hospitality
Transport	Delays, deterrent on non-essential travel
General	Supplier Storage Costs/ increased inventories particularly for Manufacturers using Just In Time, Reduced labour pool from discouraged cross border employees. Increase in costs, reduction of output

Source: Kepler Cheuvreux

Table 21: Numerous disparities between treatment of domestic and migrant workers (unskilled)

Migrant Workers – key risks outside wage level	Description
Withholding of passports	A key risk for listed companies employing contractors, controversies over Qatar World Cup construction targeted companies including Vinci
Non-discrimination - including freedom of religious & cultural identity	International human rights laws clearly identify fundamental rights to religious freedoms
Contractual Status	Incorrect legal status or contract clause processing, or at worst passive use of "smuggled" illegal or labour a clear risk for purchasing companies
Recruitment fees, wage withholding	Agencies charging excessive fees, either officially or through kickbacks - can lead to "bonded" or forced labour situations
Access to health	Adequate Health coverage for migrant workers
Termination and voluntary repatriation	Rights to terminate work period with adequate notice and repatriation under certain conditions
Working conditions, union representation and grievance channels	ie countering effects of high temperature work conditions, safety equipment, hydration, break periods, appropriate rights to collective bargaining, official and workable channels to register grievances
Safety & living conditions	Unsafe, unhygienic and overcrowded housing, food and security conditions any criteria perceived as confinement or restricting the mobility of the worker

Source: Kepler Cheuvreux

Inclusive hiring is one area where businesses may be able to capitalize on this trend. JP Morgan for example launched a USD30m three-year European programme focused on addressing employment and skills issues and building inclusive labour markets, including a focus on young migrants entitled the "New Skills at Work" programme.

The "on-demand" economy: a problematic tax and labour profile

While new collaborative business models using online platforms have a number positive implications for reducing inequality through increased access to flexible work, ability to service and work from remote locations and leverage underutilised resources as a whole (sometimes at low cost) a number of regulatory hurdles are likely to be manifested in the long term, with clear implications for impacts on inequality.

US state Seattle has begun to implement specific legislation on collective bargaining after taxi drivers complained of their lack of ability to gain the minimum wage from employer agreements. A California class action case is also examining whether certain Uber drivers could be allowed entitlement to benefits and expenses. Though the origin of such pressure to reform laws is from the on demand economy there are clear implications for any business model using independent contractors on such a basis.

Table 22: On-demand economy – regulatory challenges highlight key inequality themes

Risk areas		
Tax	Propensity to avoid existing tax liability structures while creating extremes of wealth - especially for founders	Uber allegedly paid GBP22,000 tax on GBP866,000 UK profit, accused of "tax avoidance on an industrial scale" by established competitors
Worker rights	Shift to non-standard work and "on demand" worker arrangements, lack of labour representation, health insurance, pension, benefits, training, employee (& user) safety	All
Pricing	Surge pricing affects poorer populations disproportionality	Though dynamic pricing models have existed in online pricing for years Uber is a clear example of algorithmic driven opportunistic price increases at the extremes Uber CEO faces price fixing lawsuit for allegedly conspired to raise prices and exclude competition from rivals

Source: Kepler Cheuvreux

We follow the rules (that we make): influence and lobbying

"High levels of inequality are a problem—messing up economic incentives, tilting democracies in favour of powerful interests, and undercutting the ideal that all people are created equal. Capitalism does not self-correct toward greater equality—that is, excess wealth concentration can have a snowball effect if left unchecked." Bill Gates

Large global businesses are susceptible to increasing reputational risk from their advocacy practices. The underlying allegation is that they are able to extract disproportionate influence over law making processes as a result of their relatively large advocacy budgets and staffing (in relation to other stakeholders including SMEs), their economic leverage and abundance of political connections through both network effects and as a direct result of the "revolving door", where former executives of the firm go on to policy-making roles and vice versa. This influence is further extended in certain regions through indirect political funding, such as via PACs and Super PACs in the US, which collect employee contributions via businesses.

Table 23: Transparency International Corporate political Engagement Index (UK) Criteria

Criteria	Exemples of best practice
Control Environment	Board accountability, stakeholder consultations on advocacy outcomes
Reporting	Publishing comprehensive policy issues and detailed approach to advocacy on company internet
Political contributions	Going beyond statutory requirements on disclosure, with a breakdown of global expenditures
Lobbying	Publish policy on lobbying and requirements for third party advocates with breakdown of global expenditures
Memberships	Publish complete list of trade memberships, fees and payments
Revolving Door	Report on policies for interaction of public sector and company employees, including secondments

Source: Transparency International UK

Transparency on advocacy practices remains the obstacle

Disclosure is extremely poor in this area, and while certain companies have begun to make voluntary policies available publicly, these are by and large difficult to measure in terms of implementation. Regulation itself on the transparency of lobbying processes is minimal outside the requirement in most developed markets that direct monetary donations to elected officials above stated thresholds are either prohibited or declared in a register.

Looking at data from US NGO Opensecrets.org which manages a public website on corporate lobbying data, we see that where major new legislation is in the pipeline; the sector most affected by it will often step up its corporate advocacy disproportionately to other stakeholders. Examples include the advent of Dodd Frank regulation where the banking sector reached the highest lobbying spend and then subsequently Obamacare Healthcare reforms where pharma and biotech companies become the largest lobbying spenders of any sector.

Revolving-door practices can extend post-scandal reputational damage

Revolving-door issues (where employees transition from the private sector to government and vice versa) can exacerbate sensitive reputational impacts on companies and damage license to operate with regulators themselves. In a 2015 Transparency International survey of UK companies this was the area most poorly disclosed. The appearance of contributing to inequality of influence (partly through lack of accountability for conflicts of interest) in the law making process is pertinent. Such was the case with HSBC amid allegations of its aiding global clients to evade taxes in the UK. When the allegations emerged, the former Chairman of HSBC sat on an advisory panel for the government and was widely targeted in the press as a result, before subsequently stepping down from the government position.

The role of trade bodies

There are more than 3,100 lobbyists working for the health industry (six for every member congress), and 2,100 lobbyists working for the energy sector. Between 1998 and 2015, the NGO website OpenSecrets.org highlights the pharma industry as the biggest single lobbying spender, with a total of USD3.26bn.

Of the 2015 data available, two of the top four spenders in this industry are not corporations but trade bodies – The highest Pharmaceutical Research & Manufacturers of America and the Biotechnology Industry Organization.

Oxfam research indicates that USD213m was spent on lobbying by fossil-fuel industries in 2013 alone in the US and Europe. In both extractives and pharma sectors, we see a raft of advocacy in areas that are material drivers of inequality. For pharma, tax and healthcare reform were very high on the agenda. Fossil-fuel companies were said to be lobbying against climate change reform, and against the removal of industry subsidies.

More recently, we have seen tax and privacy reform themes showing tech sectors stepping up their interest in regulatory affairs, with Google doubling its lobbying spend in recent years. The objection that many NGOs make in terms of inequality is that of the disparity in representative power in the policy-making process. The same public subject to the reform on privacy rules, or healthcare are not present to any major degree relative to those corporations that are affected by them.

Shareholders and unions: a shared concern?

"Workers should wake up to the fact that as pension holders, they are also shareholders, and should make their voices heard as such." Carl Icahn

Forms of collective bargaining are critical in reducing income inequality and protecting under certain circumstances against a variety of risks to business related to labour rights. The decline of unions in many developed markets has had a part to play in declining wages. Decreases in employee union coverage and therefore trade union density (the percentage of workers overall with collective bargaining contracts) have been marked in a number of industries, and the IMF have found evidence to suggest links between falling unionisation and a rising share of income going to the top one percent.

While civil society has pointed to the potential of co-determination governance structures where union representatives can sit on supervisory boards, the system remains largely restricted in current use (e.g. Germany). Those companies best able to manage collective labour representation are clearly at an advantage in optimising productive output from their employee base.

Forms of collective bargaining are not always seen as being in the interests of investors...

...but they can be critical both in their ability to gradually improve working conditions and accompanying productivity ...

... and as a way more generally to reduce inequality

Supporting collective agreements in developing countries

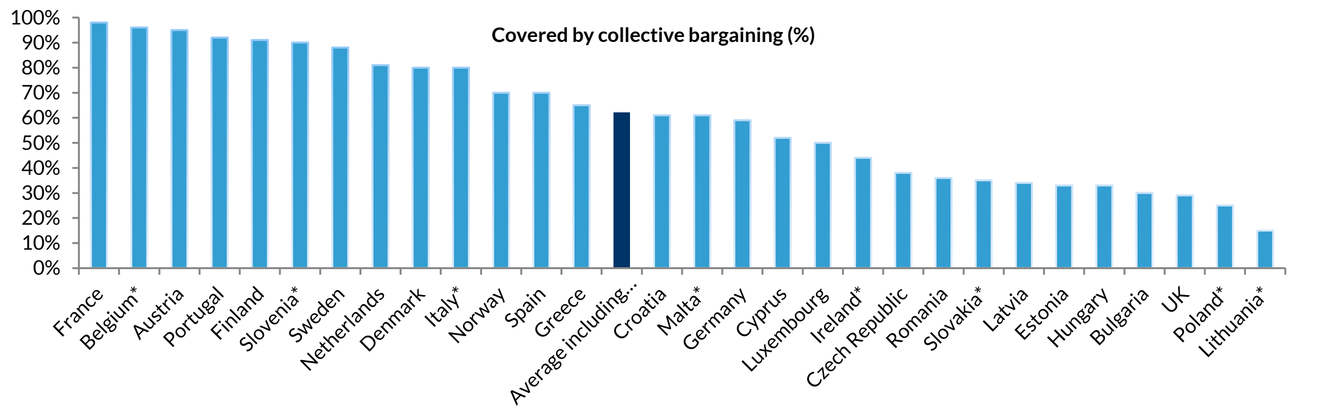
In emerging markets, collective agreements are often stalled by a lack of enforcement, if regulation exists at all. The risk here is that global firms get caught up in controversies which they indirectly support through the use of poor labour practices (via excessive hours, near poverty rates of pay and dangerous working conditions). There is a usually a huge disparity between the conditions of direct employees against those of contractors in local supply chains performing similar tasks, whose standards will not match those of their own or even sometimes Tier 1 suppliers.

In Cambodia in 2014, H&M and some of its peers issued a statement after worker deaths during police repression amid protests for the rights to representation. The ability of the company to hold a dialogue with union groups is critical even when they may not have direct representation, not least as it is the unions who are often the sole source of foreign publicity for any domestic incidents who will increasingly incite. There is some correlation with countries where collective bargaining presence is higher and lower levels of inequality (e.g. Nordic countries vs UK and US).

Subcontractor factories present the largest risks...

...the first step for end purchasers is to track supply chain to ensure unauthorised use of subcontractors is avoided

Chart 35: Higher collective bargaining coverage can correlate with lower levels of income inequality



Source: ILO

However, in certain regions unions will be absent, meaning that labour cannot easily represent itself in work negotiations. Non-standard workers covering 25% of the workforce in certain countries, hired temporarily, informally, or through employment agencies, are at particular risk of poor labour practices. These are the areas that pose a high level of risk on end purchasers and are a consistent source of controversy. We cite work by NGO Human Rights Watch that identifies restrictions on collective bargaining. In our view these can form the basis of the collective bargaining risks stemming from the income inequality they aim to leverage that large global end purchasers need to address in their supply chains.

Table 24: Human Rights Watch identifies union restrictions that affect labour practice

1	Keeping long-term workers on short-term contracts to discourage their participation in union activities
2	Shortening the length of male workers' contracts
3	Dismissing or harassing newly elected union representatives to prevent formation of independent unions
4	Encouraging pro-management unions

Source: HRW

The above translate into not only negative reputational impact but also potential operational disruptions. An example of this can be seen in recent strikes in Cambodia, which resulted in fatalities due to police actions. The retail sector has reacted: H&M for example initiated a programme for living wages in certain geographies with increased focus on collective bargaining that will be extended to emerging markets such as Cambodia.

In response to the fatalities together with C&A, Inditex, N Brown Group, Tchibo, Next, Primark and New Look it also engaged in writing an open letter to the Cambodian government supporting freedom of association, the right to collective bargaining and peaceful conflict resolution in 2014. These brands also agreed to higher factory wages.

The IndustriALL Global Union representing workers publically praised the initiative stating *"The letter also shows the brands recognise that unions are key to securing better worker rights, a fair living wage and a stable market."* However, the local clothing workers union highlighted the position of the companies themselves, especially those that were most profitable in being able to negotiate higher wages directly and increase safety standards through investment.

A decline in union density can push down the wage share

According to the UK New Economics Foundation (NEF), a think tank, a 1pp decrease in union density leads to a 0.019-0.379pp fall in the wage share. Its overall thesis is that a decline in union density has slowed economic development. While low-wage private sector employee population can benefit from collective bargaining, the alternative argument that has existed for centuries but has reappeared in recent activities in the US with the United Auto Workers Union (UAW) is that strong union membership discourages business from those locations, thereby further increasing unemployment in areas where sometimes joblessness will already be at greater relative levels.

Unions are usually concerned not just with wage negotiations but an overall view of employee working conditions, extending to retirement benefits, health insurance, safety and even broader social support for working populations including increased spending on schools and vocational training. A variety of direct effects on income inequality also tend to occur such as raising pay even for non-union workers sometimes as union wages are an input into sector benchmark wages for companies.

As high union membership tends to enable wage increases, these have a beneficial effect on inequality reduction by allowing some low-income workers (especially younger trainees) to have a career path. In the US, a recent academic study concluded that the decline of labour unions explains up to one-third of the increase in male wage inequality between 1973 and 2007.

For business, the risks of not engaging constructively with unions and labour negotiations is one of industrial conflicts; workplaces with controversial pay gaps tend to suffer more from these.

Examples of labour disputes involving income disparity:

- Telefonica was criticised for paying senior employees EUR450m in incentives shortly after announcing a 20% cut to its workforce.
- Proposed executive pay rises by Fortum and Nestle Oil were blocked by the Finnish government due to wage inequality issues. Fortum's union representative cites "*Employees have to be flexible and accept pay cuts in practice, whereas the board and management get ever higher fees and salaries*," as a precursor to possible industrial action.
- Easyjet employee representatives raised the perceived excessive pay of executives as part of their arguments for higher wages in 2015.
- ITV's union incited CEO's pay package in balloting for industrial action in 2014.
- Anglo American Platinum launched a strike targeting executive pay.
- The Congress of South African Trade Unions criticised mining companies, including Glencore, for a pay ratio of c. 300 versus that sought by miners in 2014.
- US United Auto Workers Union cites executive pay packages during contract negotiations with GM, Ford and Chrysler against background of further reductions in labour costs in 2015.
- The head of the UK's TUC cites Sports Direct labour controversies (amid a three-month 40% share price drop) as a cautionary tale for companies who treat their workers badly: "*The reputational and financial damage Sports Direct has suffered is of its own making*".

Union action affects not just labour but corporate reputation

Active union agendas related to labour rights and inequality regularly spill over into activism, which can affect company reputations and sometimes the stock value directly. Recent examples include agitation toward management during Air France's redundancy talks in 2015, where the Head of Human Resources was photographed having to flee across fences. Recently, unions have also turned their attention to

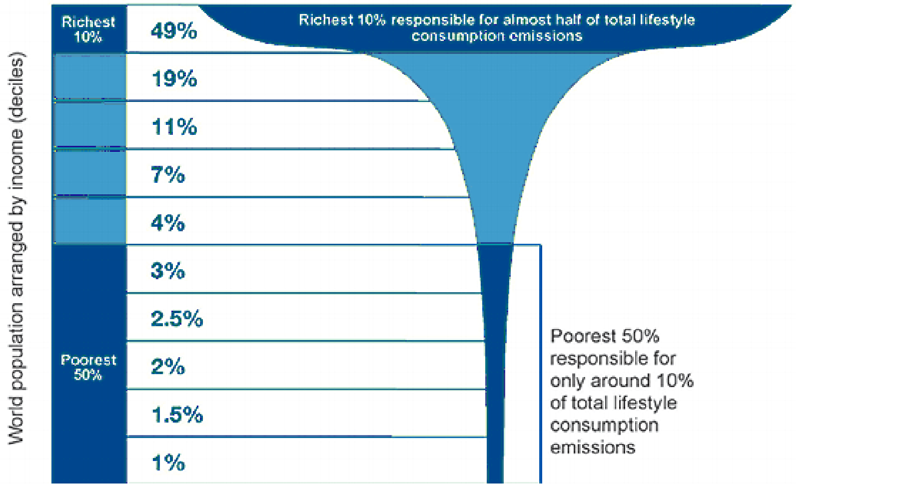
Renault, on the basis of a potential misrepresentation of emissions (against the sensitive backdrop of the VW scandal). While defeat devices have not been found, the share price drop was overdone on the back of the vulnerability of the entire sector to such allegations.

Similarly, McDonald's has suffered allegations of tax avoidance: a union federation report detailing the allegations was one factor in the visibility of the complaint against this company, one which has long accompanied intense labour disputes. Against the backdrop of union activism globally against McDonald's, the General Secretary of **Public Services International** (the global trade union federation) stated in 2015 that "*With inequality rising, working people will no longer accept cuts to services when politicians allow scandalous levels of tax avoidance by the wealthiest on the planet*"

Environmental impacts: unequal exposure

"Governments may be unable to make big enough cuts to carbon emissions without also reducing inequality' Wilkinson & Pickett, The Spirit Level 2011

Chart 36: The rich emit more

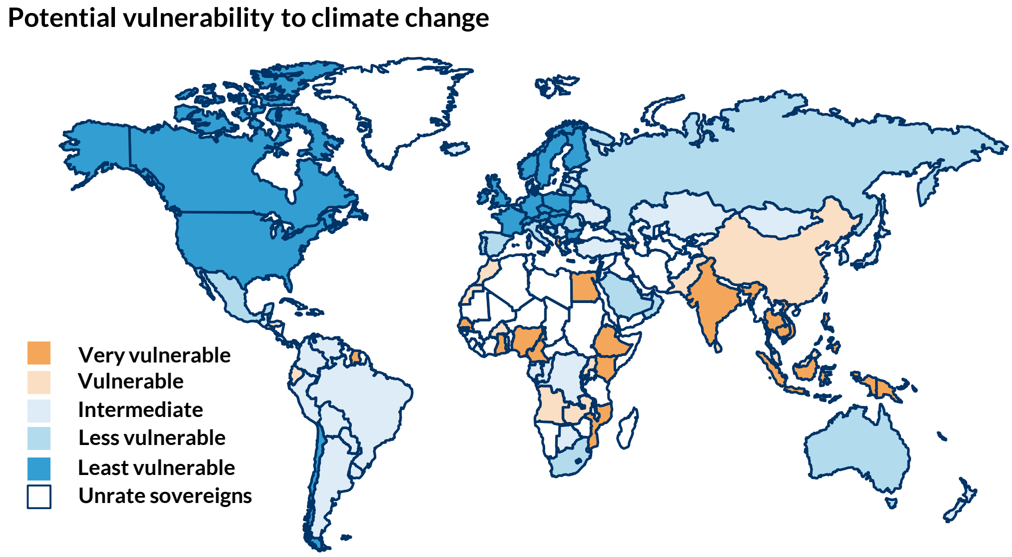


Source: Oxfam

A simple observation is that while historically the major emitters of greenhouse gases have been the richest industrialised countries, those that are most vulnerable include a large tranche of the world's poorest countries. Beyond climate change, environmental degradation in all forms (whether through land or water impact) are not only a major driver of inequality, but also create new poverty through the prolonged denial of essential resources often to the populations most at risk. We therefore include environmental impact as a key criterion of the demonstrable forms of inequality.

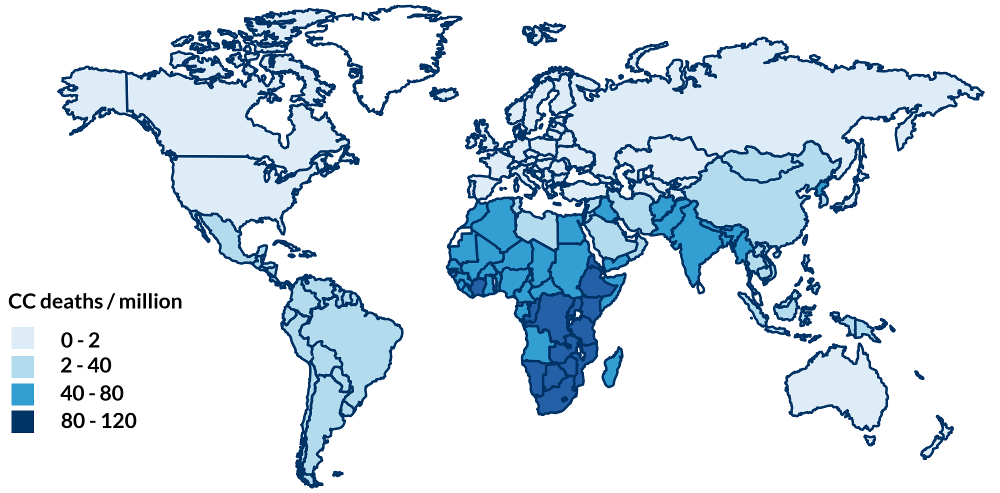
In our recent reports Investor Guide to Carbon Footprinting and Sovereign Bonds in the Carbon Compass Series on Climate Change & Natural Capital Julie Reynaud aids investors to measure the relative impacts of relevant investments. Foot printing of this kind can have feed-through upon inequality via more accurate quantification. In Reporting on Impact: Moving Forward Samuel Mary assesses in detail forms of relevant reporting for this theme and the importance to the SDGs with relevant screening tools.

Chart 37: S&P sovereign exposure map



Source: S&P, Kepler Cheuvreux

Chart 38: WHO climate change deaths map

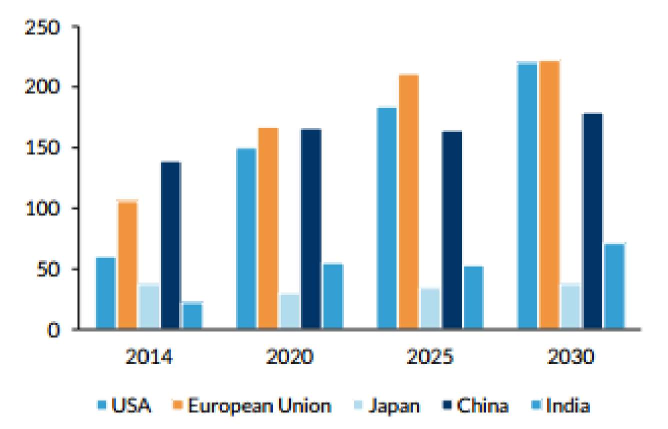


Estimates by WHO sub-region for 2000(World Health Report, 2002)

Source: WHO, Kepler Cheuvreux

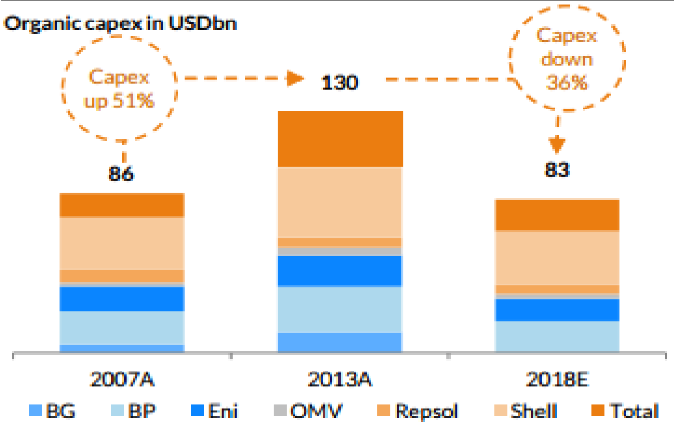
In the long-term business is exposed not least through stranded fossil fuel assets in the extractive sectors but also through rising insurance costs, and weather impacts on operational and sales activities. Furthermore growth in demand for renewables is a driver for the clean energy sector following COP21 commitments, while capex for oil majors continues to decline.

Chart 39: Clean energy investment (USDbn)



Source: IEA

Chart 40: Majors capex to reset to 2007 level (same for opex)



Source: Kepler Cheuvreux Oil & Gas Team

Net effects are difficult to measure

In assessing companies' impact on this aspect of inequality, a difficulty arises in trying to observe a net effect (where methodologies are not yet well developed). A measure of a company's contribution to environmentally friendly technologies through its products and services could be offset against its exposure to fossil fuel and emission-intensive product exposure. Trading programmes in global environmental credits already work on such a principle. However, in the context of climate change, diversification is not always a positive; the ideal is to be out of damaging fossil fuel exposures altogether. Siemens, for example, is active in clean technologies but outlaid EUR6.8bn in acquisitions for fossil fuel related extraction companies. Techniques such as "Distributional Analysis" may assist investors in mapping out the net impacts on stakeholders of worsening environmental conditions.

Access to water is an equality issue with operational impacts

For Coca Cola India, protests led to an official government order to shut down a bottling site in India in 2014, due to complaints from local residents that the firm was drawing excessive amounts of ground water, in direct violation of its operating license. As a result, the company has overhauled its water policy, with an objective to replenish 100% of the water it uses by 2020. The snowball effect of emboldening any protest related to unequal access to resources and official regulatory objection to new sites cannot be underestimated.

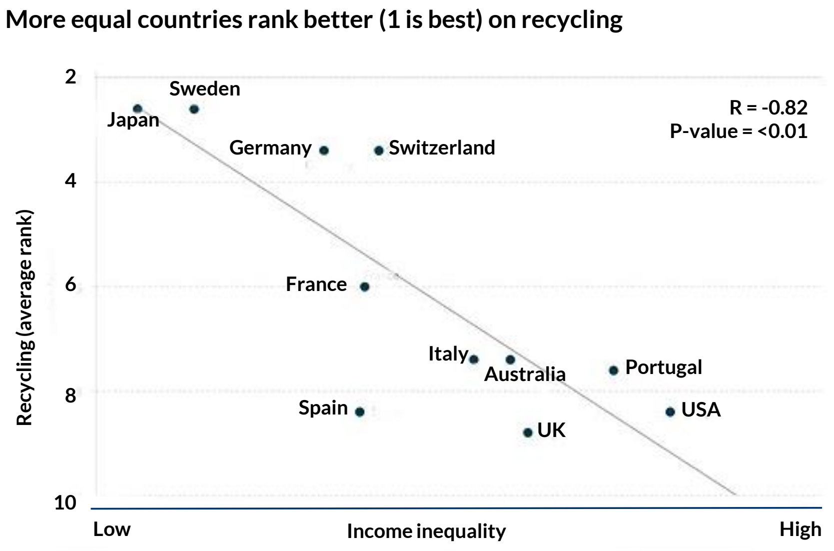
Access to water issues result from socio-economic disparities in many less-developed regions, where large businesses will routinely be challenged regarding their access rights (and therefore license to operate) even when legally sound permits have been obtained. In Maharasta, India, where extremes of global poverty and wealth are packed into the same state, numerous luxury property developments propose swimming pools in Mumbai, certain of them on every single floor. In drought-prone states, such a disparity of access to essential services typifies the extremes of inequality through the hundreds of temporary labourers employed who themselves fled drought-stricken countryside areas to seek work in the city. Water scarcity is thus an essential mapping requirement in order to contextualise the inequality impacts of water usage itself.

Those regions in emerging economies with undeveloped local infrastructure also replicate the fundamental issue of the poorer populations forced to pay a much higher price for essential goods and services than richer consumers. Thus, poorer households forced to rely on street water vendors are paying far more per litre than those housed in areas with access to home tap water through regulated utility firms.

Water-intensive sectors such as extractives are also in focus, with large mining companies in absolute terms consuming a higher amount of water than the world's largest food and beverage companies.

The Inequality Trust in the UK cites numerous data to show the correlation between environment factors and inequality including recycling and C02 emissions (see below). Conclusions are that a variety of factors in national environmental performance tend to correlate with less unequal societies overall.

Chart 41: Recycling and inequality



Source: Wilkinson & Pickett, The Spirit Level (2009), The Equality Trust

Resilience to climate change impact correlate to levels of inequality

Recently, the specific interactions between inequality, poverty and climate change have been more visibly highlighted and were part of COP21 discussions. As context we quote from the IMF's recent report by Stephane Hallegate, entitled *Managing the impacts of climate change on poverty:*

Table 25: Climate change, poverty and inequality

Examples from IMF *Managing the impacts of climate change on poverty*
In Indonesia poorest populations live with a 30% risk of flooding
In Ethiopia and Malawi, the net cost of drought could pass from USD50 to USD1,300
Precarious housing in those areas most at risk from extreme weather events is often inhabited by those with the most lack of mobility to move away
Globally poorer populations are traditionally agriculture dependent meaning the most heightened threat to climate change, as generational wealth is almost completely tied to cattle, crop harvest and ability to distribute
While certain diseases and health issues are increased by effects of climate change those most at risk are rarely covered by health insurance and live in regions of the world with lowest per capita presence of doctors. Health events are systematic in pushing households towards poverty and bankruptcy, with the effects upon the youngest being the most extreme and long term in entering them into a potential cycle of poverty which becomes difficult to escape from.

Source: IMF

We therefore highlight our "Green Impact Universe" (see *Appendix*), which highlights a variety of environmental themes, as being intrinsically part of any portfolio considering impacts on inequality due to the impact on global emissions that they can have.

Underserved and lower-income consumers

Low-cost products and the supply chain squeeze

Inclusive business models provide an opportunity to enter certain growth segments for underserved consumers in emerging markets. However, on the supply side pricing pressure in low-cost product markets has meant cost reductions in supply chains which can have negative impacts on the same consumers as employees. We emphasise that within the frame of inequality, the demand side of inclusive business needs to be valued against the supply side. At the heart of our observations on the position of large businesses in the dynamic of inequality is a fundamental conflict: effective social and environmental policies require more effective spend rather than minimum cost supply chains that feed margins.

In our report "Inclusive Business: The Business of Social Business is Business" Samuel Mary analyses in detail the drivers and exposures in this area and the resulting economic value of such activities. See also Reporting on Impact: Moving forward for relevant context, tools and fit to the SDGs.

The largest challenge of all can be presented through low-cost products which in fact serve low-income consumers in one area of the world but are based on the poor working conditions of other lowest-income populations in other parts of the world. The textile industry is a paradigm.

The work of the French National Contact Point of the OECD in responding to the Rana Plaza Tragedy strongly emphasises the need to balance contract conditions, forcing restrictive financial clauses (through payment terms, liability of delay within tight turnaround periods and lowest cost conditions generally) and any requests/obligations for minimum standards on health and safety, working hours and conditions which will either result in a significant margin squeeze for the contractor or potential commercial loss.

While local communities will often cite equitable redistribution of profits as being one solution to the above (i.e. a higher spend on labour), the relevant focus on corporate labour policy as a whole has an increasingly material impact on shareholder value and drives risk management and in some cases long-term returns.

Sustainable Development Goal 10: addressing inequality in the developing world

SDG 10 specifically addresses inequality and has ramifications for companies from European countries that are exposed to emerging markets either through supply chains or consumer markets directly. We identify the potential role of business within them below:

Table 26: Large listed companies have a role in the Sustainable Development Goal on Inequality

Sustainable Development Goal 10: Reduced Inequalities	Role of Large listed Companies
By 2030, progressively achieve and sustain income growth of the bottom 40% of the population at a rate higher than the national average	Job creation, Services & Consumer Goods, Infrastructure Development, Servicing essential BoP markets, Indirect wealth distribution effects through tax
By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status	Diversity of employment, availability of products and services, Access & specialist markets
Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard	Non-discrimination policies for employees and customers
Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality	Job creation, employment conditions, greater parity of non-standard work contracts with permanent employment, using supply chain influence
Improve the regulation and monitoring of global financial markets and institutions and strengthen the implementation of such regulations	Banking responsibility, credit policy, disclosure, preventing systemic misconduct, responsible lobbying
Ensure enhanced representation and voice for developing countries in decision-making in global international economic and financial institutions in order to deliver more effective, credible, accountable and legitimate institutions	Lobbying on global trade agreements, use of international courts, corporate capture, IP, anti-bribery
Facilitate orderly, safe, regular and responsible migration and mobility of people, including through the implementation of planned and well-managed migration policies	Services related to migration trends, including security products and services
Implement the principle of special and differential treatment for developing countries, in particular least developed countries, in accordance with World Trade Organization agreements	Lobbying on Global Trade Agreements, use of international courts, Corporate Capture at WTO
Encourage official development assistance and financial flows, including foreign direct investment, to states where the need is greatest, in particular least developed countries, African countries, small island developing states and landlocked developing countries, in accordance with their national plans and programmes	Global credit policy, default policy, secured loan, anti-bribery conditions in multilateral loans
By 2030, reduce to less than 3% of the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5%	Cross-border wire transfer and financial services for migrant populations

Source: Kepler Cheuvreux, UNDP

While poverty and inequality have numerous overlapping dimensions, inequality cannot be reduced without simultaneously addressing poverty. Reducing the extreme disparities of distribution that large listed companies contribute to has a key role to play.

Where emerging markets are concerned, the scale of poverty-driven inequality is of course far higher. While cleantech environmental and emissions reduction technology is a central area of SRI, in the frame of inequality we note that as far as climate change impacts are concerned, the major beneficiaries of the use of such technology (regardless of location of use) are emerging markets, where the poor in relative terms constitute a higher proportion of the population. Hence, not only BoP markets serving populations under a set daily income are relevant but emission reduction technologies, in their impacts to alleviate climate change extreme weather events and sea level rises that poorer countries are less able to mitigate against and recover from via optimised disaster relief, are both critical.

Key impacts of inequality are felt through access to Bottom of the Pyramid markets (BoP), Access to inclusive Services & Products, and Supply Chain emissions & Product emissions (i.e. Scope 3 downstream – see Investor Guide to carbon footprinting):

Table 27: Sectors with impact on emerging markets inequality through access products and emissions

Sector	Product & Service Examples	Environmental Intensity & Climate Impacts (Emissions): from Product	Climate Impacts (Emissions): Supply Chain
Capital Goods	Infrastructure	High	Low
Materials	Infrastructure	Low	Med
Food & Staples retail	New outlets, Low cost products	Low	High
Food, Bev & Tobacco	Low cost nutrition (highest BoP exposure)	Low	High
Pharma & Healthcare	Access To Medicines	Low	High
Forestry	Eco fuel, eco forest	Med	High
Support Services	Temporary Contracts, Agencies	Med	Low
Education	Distance Learning, Low Cost Schools	Low	Low
Technology	Low Cost Devices	High	Med
Telco	Mobile Banking Rural Services Bridging Digital Divide	Med	High
Real Estate	Social Housing	High	Low
Transport	Coach Travel	Low	Low
Utilities	Utility tariffs & Fuel poverty schemes	Low	Low
Consumer Durables	Low Cost, Sachet size	Med	Med
Banks & Insurance	Micro Finance, Micro insurance	High	Low

Source: Kepler Cheuvreux

The larger the supply chain, the larger the inequality footprint

Procurement and outsourced manufacturing practices have created unprecedented opportunities for global business to cut production costs. One visible factor of this trend has been the large reduction in-house staff. Unilever, for example, has seen its internal headcount drop significantly as a result of externalised production processes (like the majority of its competitors), vastly increasing its use particularly of emerging markets suppliers.

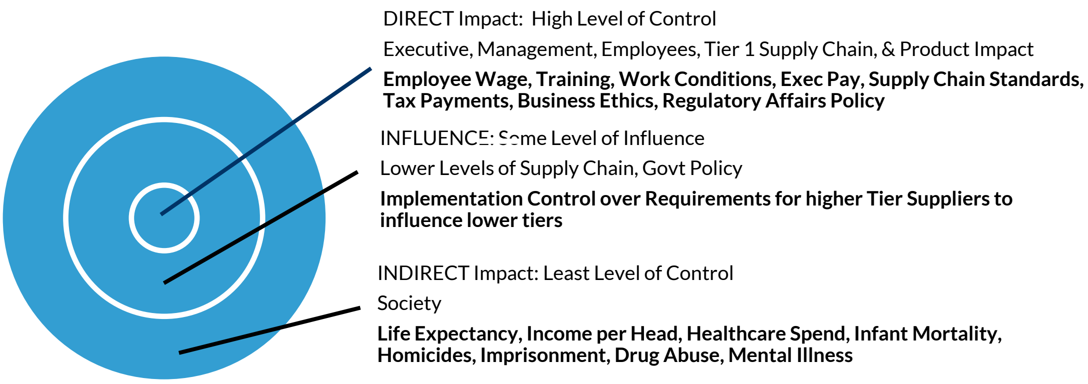
Levels of control over such geographically distant points of production as well as accountability are the obvious losers of this trend. While employment is created, civil society argues that these are low-quality jobs, with the lowest levels of pay, exploitative labour conditions including working hours and poor levels of safety oversight (e.g. Rana Plaza 2013 with 1,130 deaths in a multi-use factory where textiles were made for global brands).

Inequality drives OECD complaints in which investors are targeted

It is the supply chain area that has become increasingly thorny for investors; a recent statement by an OECD National Contact Point referred to the explicit responsibilities of investors to bear influence on companies they are invested in where controversies or violations may have taken place. Almost all the complaints for potential violations of the OECD Guidelines for MNEs are directly driven from levels of inequality in the areas where NGOs maintain that violations have taken place in terms of environment, labour rights, and displacement of communities, which account for the bulk of the complaints.

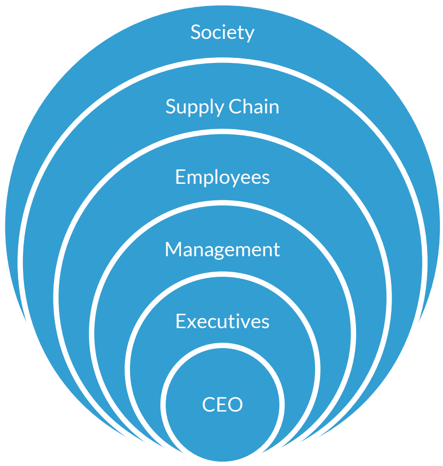
A key outcome of our previous work in this area (See Soft Law Violations Report) shows that engagement by investors is thus a key area to reduce the risks presented by such controversies. For companies requiring sustainability standards in their supply chain, restrictive low-cost contract conditions undermine progress in this area and should be a central area not only for supply chain engagement but in reducing the most damaging aspects of inequality that can affect both business investors and local communities. Inherent herein is the structural increase of influence by both corporate and investor stakeholders, from the CEO's ability to influence executives in this area (and vice versa) to the final effect of the businesses impacts on society as a whole.

Chart 42: The sphere of influence – direct and indirect impacts are connected



Source: Kepler Cheuvreux

Chart 43: From CEO to society: spheres of influence



Source: Kepler Cheuvreux

Much that is the basis of inequality takes place in the supply chain, both domestically and non-domestically. While companies have increasingly wanted to make public their incorporation of human rights, anti-corruption and environmental criteria for their major suppliers, few have engaged extensively with pay (even less the concept of "living wage") in the supply chain as a CSR criteria. More than other criteria, it is seen by many businesses to have a negative impact on pricing for the end purchaser.

Supplier pressure: payment terms

"*The absolute focus on operating margin had damaging consequences for the business and our relationship with suppliers. This has now been fundamentally changed*," Tesco Chief Executive, Dave Lewis

Pressure on suppliers by the largest purchasers is significant in terms of inequality, particularly when applied to small and medium-sized businesses whose liquidity may depend more significantly on such larger buyers. In 2016, a UK retailer was found to have broken the Groceries Supply Code of Practice in delaying payments for often lengthy periods of time to suppliers. Furthermore, alleged unilateral deductions from payments were made. While we have no data on the number of businesses failing as a result of such practices, the systematic effects of such practices on owner-managed units (who are less able to compete or deal with most onerous terms imposed) can be devastating.

In our report entitled *Soft Law violation & liability: Towards Fiduciary Duty 2.0,* we highlighted the difficulty of supplier contracts in simultaneously inserting clauses on lowest costs with heightened spend on sustainability. Large suppliers, while lauded for introducing audits and terms for CSR areas within their purchasing chain, may need better levels of margin flexibility and potentially funding from their own sources to enforce levels of labour rights, living wages and safety in their supply chains.

Sector analysis

Table 28: Issues impacting Inequality Footprint by sector

Sector	Key issues
Utilities	Climate change impacts on poor, low cost tariffs, rural access, lobbying, anti-competitive behaviour
Food	Access to nutrition, supply chain labour conditions & environmental impacts, land degradation, profit shifting
Capital goods	Climate change, supply chain environmental impacts, corruption, anti-competitive behaviour
Beverages	Sustainable water use, living wage, environmental impact, profit shifting
Banks, Insurance & Financial services	Systemic risk & new "Bail in" legislation, remuneration, access to credit, default policy implementation, misconduct impacts, lobbying & corporate capture, enabling tax avoidance & illicit transfers, profit shifting
Transport	Industrial relations, affordable public transit, vehicle emissions, price fixing
Travel & leisure	Living wage, Human trafficking
Metals & mining	Living wage, corruption, lobbying, profit shifting tax avoidance
Holding companies	Use of opaque group structures to avoid taxes and overall transparency
Construction & materials	Living wage, environmental product impacts
Pharma & biotech	Access to medicines, pricing, lobbying, supply chain labour & environmental impact, tax avoidance
Support services	Living wage, employee training
General retail	Living wage, employee training, low cost segment, fair trade & organic lines
Airlines & airports	Industrial relations, low cost access to air travel
Forestry, paper and packaging	Deforestation, displacement, indigenous people's rights, environmental impacts
Food retail	Access to nutrition, supply chain labour conditions & environmental impacts, land degradation, profit shifting
Chemicals	Supply chain labour conditions & environmental impacts,
Aerospace & defence	Supply chain, lobbying
Property	Social housing, affordable housing
IT software & services	Digital divide, profit shifting
Telecom services	Digital divide, price fixing, profit shifting
Media	Educational products & services, profit shifting
Autos & parts	Vehicle emissions, price fixing
Luxury goods & cosmetics	Supply chain environmental & labour impacts
Oil & gas	Climate change impacts on poor, cartels, lobbying, anti-competitive behaviour, profit shifting

Source: Kepler Cheuvreux

While all sectors can be exposed to themes stemming from income and social inequality, our focus is on those where both risks to long-term shareholder value and corporate ability to make an impact are the largest. In our view, the key sectors include banks, consumer sectors, pharma, extractives, capital goods, and telco & ICT.

Private banking and luxury goods

Inequality a critical driver for sector beneficiaries

Sectors outside our scope which have been beneficiaries of inequality at the wealthiest end of the spectrum include luxury goods and private banking. However, luxury goods companies fit into our profile in terms of affecting inequality through their supply chain and human capital policies.

The approach of private banks to minimising tax for clients is the most problematic aspect in the context of global income inequality and the consequent social impacts. The business model of enabling aggressive tax avoidance has clearly been compromised over the last decade, and sector profitability in servicing wealthy clients and integrating tax reduction schemes has suffered irrevocable damage through waves of litigation, reputational risk to parent universal banks (most recently via a Swiss units of HSBC) and margin impact through increased compliance and IT costs.

However, the increase in responsible and impact investment offerings is a clear positive. **In our view, the integration of ESG in capital allocation processes and investment methodologies in wealth management has a central place in curtailing the resulting inequalities from which the source of the capital is sometimes inseparable.**

Banks

Systemic risks, bailouts and bonuses

Banks have been the public focal point of inequality through a variety of behaviour including the systemic impacts of the largest institutions, failures in risk management and in some cases misconduct ranging from collusive market manipulation to systematic misselling of products. Most recently this has resulted in so called bail in legislation increasing potential liability for the private sector as a whole rather than the stet and taxpayer.

Added to this, the skew in pay for staff in this sector being one of the largest (particularly variable pay for senior staff and material risk-takers), and it is not difficult to see why the redistributive effects of the sector on capital flows have been widely perceived as having a major negative impact on income and social inequality. Above all there is a perception that those hardest hit are not the higher income executives and senior risk takers with part responsibility for the financial crisis but instead large groups of lower and middle income consumers.

Table 29: A backdrop of increased inequality – resulting impacts on banking sector

Theme	Impact
Reputational	Public backlash, Movements such as Occupy creating a political mandate on bank conduct
	Mistrust of executives, media willingness to pounce disproportionately on sector
Recruitment	Some reduction of attractiveness post crisis i.e. for graduates/ MBAs, potential losses at C Suite level to tech sector
Regulatory	Proposals for sector taxes i.e. FTT, Swedish bank tax for education funding
	KYC/AML: Additional Compliance burdens as a result of numerous scandals / settlements
	Further litigation: Market manipulation and misselling investigations spreading further still to new trading practices
	Pressure to reduce funding guarantees Ongoing allegations of a "Too big to fail subsidy"
Product Restriction	Offshore Wealth Management margins decimated as a result of numerous regulatory and reputational drivers
	Divisions/ services facilitating tax minimisation for financial services sector under scrutiny (if still available at all)
Remuneration	Talent retention: Restriction on remuneration (CRDIV/ Clawbacks/ Bonus Caps etc)
Advocacy	Some potential impact on ability to use « revolving door » practices due to government's and media's increased scrutiny of senior appointments from banking industry

Source: Kepler Cheuvreux

Widening the gap: systemic risks

Although under extreme stress (the Lehman collapse), systemic institutions carry the greatest risk of affecting the global economy through default; any failed approach in risk or conduct management is a potential form of social and income redistribution with negative ramifications for the wealth gap. Large variable payouts assigned without adequate risk management (including clawback conditions) have had a tendency to encourage excessive risk-taking, which has been at the expense of both general consumers, who have faced individual impacts (excessive fees, misselling, foreclosures) and shareholders, who often bear a major part of the cost of litigation.

Recent regulation that focuses on risk control by addressing some of the potential systemic impacts of the sector had explicitly taken compensation into account, with the underlying concern that bonus structures encourage excessive risk-taking for individual benefit at the expense of the broader economic impact. As banks have benefited from state guarantees (e.g. bailouts), in practice the cost had been sourced from the taxpayer until recent bail in legislation.

Bank funding guarantees, against a backdrop of systemic risk, had singled out the sector for favourable lending conditions. The sector, effectively at the top of the financial food chain globally, already benefits from this privileged position. One result of this is the highest aggregate variable pay of any sector.

From bail-outs to bail-ins…

The most recent developments move the funding system towards the private sector away from the tax payer and the resulting negative impacts on inequality. The "Bail in" concept in force since 1 January 2016 means that the rescue of a bank (through the resolution process) now receives sources of funding from shareholders equity, additional tier 1 capital, subordinated debt, preferred senior debt in a TLAC and MREL context. The investor will thus bear the bulk of the losses.

Corporate misconduct tends to result in "upward redistribution"

Enforcement against corporate misconduct has continued apace, with total penalties in the banking sector alone reaching well over USD200bn globally since the financial crisis. While the systemic nature of the sector has been well acknowledged in regulatory proposals and new capital requirement directives, the sector's ability to move the needle in terms of inequality has not been so well scrutinised. Mortgage and insurance misselling, foreclosures, large-scale derivatives repackaging with little transparency, market manipulation, and the enabling of tax evasion have had an obvious impact globally on increasing the world's wealth gap. They also have damaging social effects in terms of impacts on home repossessions, reduced government tax take and occasionally increased costs of financial services, especially for some lower income populations.

Table 30: Banks have the greatest impact on inequality in numerous forms

Theme	Forms
Default of systemic institutions	Resulting impact through bailouts result in use of state funds potentially directed away from public spending Global economic impacts from systemic fallout in event of actual default
Misconduct	Links between systemic events and certain types of misconduct (US housing market/ derivatives misselling) Anti Money Laundering and Know Your Customer failures resulting in large transfers of illicit wealth (corrupt proceeds) Market Manipulation resulting in negative impacts on pricing
Tax	Private banks and corporate units in particular facilitating aggressive tax avoidance for large businesses/ financial sector or high net worth / UHNW clients
Remuneration	Highest senior pay of any sector, material risk takers instrumental in systemic risk, absence of clawbacks in event of misconduct
Diversity	European banks have poor performance on diversity, especially at board level for both gender, age pyramid, and internationalisation aspects.

Source: Kepler Cheuvreux

OECD finds evidence of the "finance curse"

According to the OECD, a correlation exists between the higher inequality (affecting the least wealthy in certain countries) and the size of the finance sector. Household income growth tends to accrue disproportionately to the wealthiest decile in their study under conditions of economic growth and reduces that of the lowest income deciles. This adds to the call by many including the IMF that "trickle-down economics does not work". According to the evidence of numerous academics and think tanks, the financial crisis has diminished any rebound in wage shares and instead increases in output have tended to see gains going primarily to the wealthiest percentiles.

Fair capital redistribution concerns at the heart of bank taxes

The EU proposal for the FTT has been severely diminished in scope since its inception in 2011 with the objective of harmonising the tax base and tax rates (0.1% for the trading in shares and bonds; 0.01% for derivatives) for all transactions in secondary financial markets, when at least one EU financial institution is involved. The potential use of proceeds of the FTT has been much discussed and includes climate change and development aid. Such an approach was also seen in a proposal by Sweden's Social Democrats party that taxed the largest banks to fund pre-school education (limiting class sizes to 15).

Material risk takers' remuneration

"*I'm extremely aware that within the bank the share price is an indicator of the health of the company and it tends to drive morale and morale tends to drive motivation and motivation drives performance… It's not as if we ignore the share price; we wish it were higher, but we strongly view that it would be inappropriate and ultimately unsuccessful were we to take measures [to push up the share price at the expense of the long-term plan].*" John Cryan, Deutsche Bank

Risk takers in the banking sector have come under official scrutiny through EU CRD IV regulation, and below we provide an overview of the most recent reporting. Deutsche Bank remains the institution with the highest percentage of variable pay awarded above the minimum 1-1.5m tranche to material risk-takers as well as the largest number of MRTs themselves. This comes with strong CEO statements on Deutsche Bank's variable pay practices, including comments on his own (decrying any impact on his own motivation from the size of his variable pay).

Clawback legislation in effect in the UK is among the strictest in the world with variable pay made after 1 January 2016 subject to a seven year deferral period. Numerous banks including HSBC, RaboBank, Lloyds, Deutsche Bank, RBS, Barclays and UBS have already used limited recovery measures on variable remuneration when misconduct has been discovered. Arguably, the mandate for such restrictions whether sought proactively by banks or via regulatory mandates (including Dodd Frank in the US) originates from the need to curtail excessive risk taking by introducing greater accountability through variable pay practices. The post-crisis impacts on income inequality, which have fed into the political climate, cannot have failed to have had an impact on securing a mandate for such types of regulation.

Table 31: Bank pay - remuneration of key staff 2014

Bank	Country	No of risk-taking staff	Terminology of Group covered	Ratio of variable to fixed	No of Bonus >EUR1m	No of Bonus EUR 1-1.5m	% of Bonus Awards > EUR1.5m (out of pool of bonuses above EUR1m)
Deutsche Bank	Germany	2,903	MRT	1.12	816	391	52%
Barclays	UK	1,277	MRT	1.06	560	279	50%
HSBC group	UK	1,178	MRT	0.86	320	170	47%
Santander	Spain	1,091	Identified staff	1.28	143	76	47%
RBS	UK	954	MRT	0.39	110	59	46%
BBVA	Spain	406	Identified staff	0.72	42	23	45%
Unicredit	Italy	1,100	Identified staff	0.37	41	23	44%
BNPP	France	830	MRT	1.27	149	95	36%
Soc Gen	France	550	Regulated population	1.11	109	73	33%
Standard Chartered	UK	649	Code Staff	0.68	130	88	32%
BNP Fortis	Belgium	227	MRT	0.29	4	3	25%
ING	Netherlands	660	Identified staff	0.57	16	13	19%
Intesa San Paolo	Italy	274	Key Personnel	0.69	8	7	12%
CA CIB	France	418	Identified staff	0.99	10	9	10%
BNP Personal Finance	France	92	MRT	0.57	1	1	0%
Commerzbank	Germany	763	Senior management and risk takers	0.74	9	9	0%
KBC Group	Belgium	460	Key identified staff	0.36	1	1	0%
UBS	Switzerland	625	Key risk-takers	2.36			
Credit Agricole	Switzerland	801	MRT and controllers	2.34			

Source: Kepler Cheuvreux

Table 32: Banking and insurance Inequality Footprint

Key issues	Impacts on inequality	Investor materiality
Systemic institution	Default and risk of default impacts global economy directly, entails potential emergency government funding	Worst case scenario for shareholders is 100% loss, but overall negative market impacts potentially high including impact on dividends and sustained low returns
Mortgage misconduct	Numerous forms of systematic mortgage related misconduct behind last financial crisis. Foreclosures resulting from risky lending practices a particular concern in impact on certain owners, tenants, and local communities. Potential moral hazard in awards of significant bonuses pre crisis in the creation of mortgage debt and distribution without clawbacks when these resulted in losses for both institutions and impacts on borrowers (some of whom systematically mis-advised).	Ongoing mortgage litigation in the US since financial crisis USD19.4bn for mortgage repurchases and USD60.bn for MBS settlements according to FT data
Misselling misconduct	Misselling of mortgages and insurance PPI for example have been responsible for significant redistribution – systematically adding costs and liabilities for clients sometimes with outsized impacts on poorest borrowers, while institutional reward structures may mean benefits are disproportionally accrued to executives without possibility of clawback even where conduct has been deemed illegal	UK PPI Costs for banks standing at 22bn GBP+. See Santander earnings Q4, 2015 for a typical share price drop on such newsflow
Market manipulation misconduct	Manipulation of rates (FX, metals, interest rates) has potential to impact prices on variety of goods and services including student loans. While difficult to link final pricing impact on end customer numerous rigging scandals globally have indicated systematic failures of "market" pricing which have accrued high levels of variable pay for performance based on misconduct.	Market Manipulation penalties alone for banks standing at 16.4bn USD since financial crisis
Tax & AML policy	Both internal policy on position of tax avoidance on corporate liabilities and that towards customers (i.e. assisting in aggressively reducing customer liabilities) is instrumental in increasing inequality. Developing economies lose 100bn USD pa+ according to NGO GFI but even mature economies are negatively impacted through weakened spending power of government institutions on essential services.	Longer term business model vulnerability of both corporate and client centred aggressive avoidance: the latter has entailed the greater penalties to date, but the former looks set to grow over long term
Remuneration policy	Direct impacts on inequality as with all sectors, banking however contains the highest comp overall. Variable pay increasingly linked with limiting risk taking impacts	Widespread perception of Excessive pay, (need solid data for all banks) redistributive in terms of depriving poorer and middle class populations and also in terms of impact of excessive disparities in remuneration without accompanying value creation
SME lending	"The real economy" i.e. not interbank lending but out , most common allegation is that banks create wealth for executives by trading among themselves. SME lending evidence of real economy stimulation	Thus far, investors less concerned with the shareholder value creation from SME lending
Repossession policy	Where customers default certain lenders have systematically pursued highly aggressive policies. Good practice such as that by BBVA credit policy stipulates numerous alternatives for distressed creditors	Danger of litigation related to foreclosures (see above), some repossession
Product & service range	Microfinance an enabler of poverty alleviation. Location of branches, low cost fee products and services	Microfinance largely non material revenue exposure for banks currently but a long term growth market
Energy lending mix: fossil fuel vs. clean energy	Extreme weather events and rise in sea levels disproportionately impacts poorer populations, financial services intrinsic in the development of clean solutions. See our Banks Report "Beyond The Horizon"	Low carbon economy a long-term growth area, increasing reputational impact from fossil fuel financing

Source: Kepler Cheuvreux

Table 33: HSBC Inequality Footprint

Comment	Income disparity	Tax	Social mobility	Business Ethics
Large global universal bank means challenges are greater, however litigation history contains contributors to income inequality from foreclosure settlements to money laundering. Tax allegations in particular are a contributor to global inequality - i.e. on facilitating high net worth client tax minimisation through Swiss unit. A large provision of market manipulation remains and in common with many UK financial institutions HSBC retail units have also been proponents of PPI misselling. To its credit hiring practices are inclusive, and emerging market offerings include microfinance & insurance as well as lower-cost banking products. Numerous reforms in progress on compliance front addressing exposure to risks related to all of the above including client tax evasion, and global AML exposures. Product : AUM Priv Banking 275bn 2014 HSBC scored poorly in a 2015 TI UK FTSE100 scoring of 40 companies, on its lobbying policy with an E grade (the lowest grade awarded) based on public information and a D based on internal information provided for the survey.	Executive to Employee pay multiple of 91.5 is at highest end of peer group. Pay data unavailable for emerging markets retail units Sizeable job cuts (almost 90,000 since financial crisis) including high street branches. Ongoing media reporting of bonus pool is noted with high scrutiny. Variable Pay pool for 2014 at USD3660m, down from USD3.7bn in 2013.	Criminal tax probe in France, EUR1bn bail money deposited with French courts in 2015 Investigations also underway in Argentina, Brazil, Mexico, Spain (GBP220m recovered) , Denmark, Belgium, India 2015 Allegations from NGO Luxleaks accusing HSBC Geneva of aiding clients in aggressive tax practices on assets USD120bn for 2005-07 Settlements include : USD53m: Canada CHF 40m to Swiss authorities Reduced exposure after sale of CHF10bn Swiss private bank client assets to LGT Group in 2014 UK BBC documentary alleging that British clients served by HSBC Geneva in tax evasion , attempting to interview former HSBC Chairman and calling for a response from tax authorities. UK has recovered GBP135m from HSBC Clients. Full page apology published in newspapers February 2015	Largest staff of peer group at 266,000 globally for group in FY 2014, quality training, layoffs a concern, no training numbers 2014, latest was 2013 equivalent to 3.99 days per full-time employee. Volunteer scheme 1,000s of employees, USD57m youth spend, in 2013 out of USD117m spend on community HSBC Water and Education programmes, (following a prior HSBC Climate Partnership) invest USD100m and USD90m+ over five years respectively. USD205m or 1.09% of profit before tax donated in total 2015 (across education, environment, local community funds) Employee Turnover not disclosed	Money Laundering 2012: USD1.9bn settlement including sanctions violations - for alleged terrorist and narcotics funding, (alleged USD8bn+ shifted from Mexico to US) Large Inequality impacts include sustaining poverty and assistance in redistributing wealth (illegally) and destabilising government institutions US Mortgage: USD249m for foreclosures settlement 2013 - Independent Foreclosure Review Settlement - USD96m paid into borrower relief fund, USD153m paid to foreclosure prevention efforts. Further USD470m in US state and federal fines 2016 for mortgage abuses 2014: Settled charges of misleading investors over mortgage backed securities for USD550m. Potential ongoing impacts of litigation record - especially heightened with US money laundering penalties and then recently relaunched with Swiss unit client tax avoidance . HSBC scored very low vs peers (E) in an NGO scoring of UK companies for Corporate Political Engagement practices

Source: Kepler Cheuvreux

Table 34: Deutsche Bank Inequality Footprint

Comment	Income disparity	Tax	Social mobility	Business Ethics
Potential impacts on inequality via variety of settlements across mortgage misconduct and market manipulation – combined with high compensation vs peers for risk taking staff	Historically a high pay culture, under pressure with the 2016 announcement of no bonuses for top management and overall bonuses down at least 15% Average Executive to Employee Pay Multiple 19.23 including retail division staff and cost to income ratio of 90% is highest end of peers. Bonus pool for 2016 said to be down 30% . Compensation policy adjusted 2013 to include behavioural aspects. Variable comp mainly on deferred basis with some limited clawback conditions. 50 % + of total variable compensation of Management board is long term (equity based). Largest number of material risk taking staff in European peer group (2,903 in 2014)	2010 US ruling of USD554m that Deutsche participated in fraudulent tax shelters, generating tax losses 2014 accusations by US Senate that Deutsche and Barclays promoted products to hedge funds allowing for USD6bn + in tax avoidance.	26,000 job cuts by 2018 (9,000 on a net basis) announced 2015, 20 per cent of contractors targeted for cuts Large workforce includes significant retail unit headcount, where inclusive recruitment policies are impactful High employee volunteer participation (21% globally, 24% Germany) across community, youth mentor and pro bono consulting 80.5m EUR in Community Spend 2014 or 2.58% of Profit Before Tax Employee Turnover not disclosed	Mortgage penalties include MBS penalty of USD1,925m in 2013, false certification of residential mortgages in 2012 USD202m, USD145m for misleading credit unions on MBS purchases and a USD55m penalty for allegedly hiding aUSD1.5bn loss. Largest settlements have been in Interest rate derivate settlements at USD4bn + globally

Source: Kepler Cheuvreux

Table 35: Barclays Inequality Footprint

Comment	Income disparity	Tax	Social mobility	Business Ethics
Reputational impacts since financial crisis in controversies with high impacts on inequality from market manipulation, mortgage misconduct, tax avoidance to incentive pay practices Barclays scored highest of peers (C) in an NGO scoring of UK companies for Corporate Political Engagement practices Public Policy engagement section on website outlines number of meetings with UK government ministers (21 in 2014) and membership of trade associations also downloads of Barclays responses to public consultations and lobbying expenditure “Real” Economy : New and renewed lending to SMEs in 2014 was GBP14bn (GBP13.4bn in 2013)	Pay Ratio of 26.9 including retail division staff and cost to income ratio of 90% is highest end of peers. 2013 UK Salz Review of Barclays highlighted incentive system even within retail unit which may have contributed to aggressive sales culture Second highest number of material risk taking staff in European peer group (1,277 in 2014) of which 560 awarded bonus >1m EUR	2013 structured cap markets unit closed after political pressure, allegedly generating GBP1bn a year over 2007-10 and GBP9.5bn 2000-11 prompting official allegation of « industrial scale tax avoidance » in Salz review, which also criticised low UK corporate tax payments UK newspapers allege that 2012 UK Treasury case ordering rare retrospective action to close two tax avoidance schemes by Barclay s labelled as « highly abusive » with potential liability of GBP500m + 2014 accusations by US Senate that Deutsche and Barclays promoted products to hedge funds allowing for USD6bn + in tax avoidance.	Large workforce includes significant retail unit headcount, where inclusive recruitment policies are impactful Retail branding as an employer still retains strength 501 Youth Apprenticeships in UK for 2014 Community SpendGBP 62.4m in 2014 or 2.77% of PBT. Entrerprise, employability and financial skills of 10-35 year olds targeted in programme (1.76m reached in 2014) Employee Turnover at 19.9% high but at disclosed unlike some peers	Misconduct history contains numerous serious contributors to inequality from mortgage misconduct, foreclosure settlements and wide variety of ongoing market manipulation. Previously criticised in official UK government Salz review for aggressive aspects of company culture, extending to retail decision where PPI misselling was allegedly accelerated by reward structure. Significant investment in cultural reform and compliance in recent years. Recent CRD IV Country reporting reveals particularly high maximum profit per head in Luxembourg at GBP15.8m: civil society has requested more information to confirm that the figure does not originate from profit shifting for tax purposes 2011 US fine for misrepresenting delinquency data and inadequate supervision for residential mortgage subprime security issuance 2007-10. FHFA suit also resulted in USD280m fine for misleading investors over MBS Ongoing and numerous market manipulation penalties across FX, interest rate derivatives, precious metals, ISDAFix and energy markets.

Source: Kepler Cheuvreux

Table 36: Societe Generale, Svenska Handelsbanken Inequality Footprint

Comment	Income disparity	Tax	Social mobility	Business Ethics
Societe Generale				
Given the size and complexity of organisation, Societe Generale is at the lower end of the litigation scale for a systemic institution, having avoided the excesses of litigation of many global peers. Coherent policy on lobbying : Charter for responsible advocacy outlining commitment to transparency , public positions also displayed and membership of main trade associations "Real Economy" :EUR462m in lending to new businesses in 2014	Regulated population was 550 in 2014 (with 109 receiving a bonus over EUR1m) 45 UK Code Staff shared 2014 remuneration of GBP10.49m for business lines, GBP8.17m for Management Support and Control	US mortgage misselling fine of USD122m in 2014 but less than European peers Some allegations of potential temporary economic effects of rogue trading case in 2008 Penalty for Swiss Private Banking Unit of EUR17.8m in 2015 for aiding US citizens to evade taxes Some disclosure on use of tax havens : States all Subsidiaries based in nations that have signed the common reporting standard, explains presence in Brunei and British Virgin Islands Unexpected attention given to Panama Leaks in French media coverage, effect of leaks unknown but may at this stage be exaggerated	Community Spend of EUR7m in 2014 or 0.16% of PBT including mentoring in disadvantaged communities for youth and job seekers Employee Turnover of 13.3% slightly high versus French peers that disclose	Although low overall litigation profile versus peers, benchmark rates fine of EUR446m in 2014 for 26 month participation and potential suit due to FX manipulation. Significant internal controls compliance reforms followed the rogue trading scandal.
Svenska Handelsbanken				
Arguably the bar is lower for Handelsbanken as a non-systemic institution with predominantly Nordic presence but nonetheless a wide variety of activities has strengthened the banks positions in having a positive contribution to reduced inequality Access to Banking: the company maintains that it is the only bank present in 59 locations Responsible Lending Policy has resulted in lower defaults Levels of Gender equality higher than peers 51% female in group but manager level at 37% , internal programme addresses awareness and pay differentials	Material Risk Take Remuneration disclosure not required under EBA but as for Risk Management: No use of emergency liquidity funds	Large corporate tax payer in Sweden Small private banking division in Luxembourg	Low external staff turnover in Sweden of 2.2% encouraging long-term development	SKR35m fine for breaking Sweden's money laundering rules in 2015. Regulator maintaining the risk of financing of illicit operations as a result

Bank advocacy under scrutiny

As the following table shows, Deutsche Bank had the largest lobbying spend (taking US disclosure compiled NGO OpenSecrets and official data from the EU Register) according to the limited disclosure data available ahead of HSBC, which comes second despite its larger size. According to the obligatory official data for US Political Action Committees (PACs), UBS employees have the highest spend in US political spending. Numerous limitations exist in both the US and the EU (voluntary) data, as legal frameworks are in their infancy and checks and controls are few.

We also incorporate for UK banks a score from NGO Transparency International which has lead numerous campaigns for both disclosure and legislation in the area of advocacy globally. It assesses criteria outlined in the table below to assess lobbying policies of UK companies.

Table 37: Transparency International Corporate political Engagement Index (UK) – score themes

Criteria	Examples of best practice
Control environment	Board accountability, stakeholder consultations on advocacy outcomes
Reporting	Publishing comprehensive policy issues and detailed approach to advocacy on company internet
Political contributions	Going beyond statutory requirements on disclosure, with a breakdown of global expenditures
Lobbying	Publish policy on lobbying and requirements for third party advocates with breakdown of global expenditures
Memberships	Publish complete list of trade memberships, fees and payments
Revolving door	Report on policies for interaction of public sector and company employees, including secondments

Source: Kepler Cheuvreux

Transparency International's findings are that Barclays is the overall leader in the UK peer group in terms of disclosure, scoring an A grade in the areas of Reporting , Political Contributions and Lobbying policy with a C overall. One area which we would identify as high risk where all companies scored poorly (F) is "the revolving door"– or the flow from government positions to corporate ones (and vice versa) . In any kind of controversy the reputational risk is certainly a high trend where former employees of a company are advisors or hold official positions with the government. Similarly, former government employees entering the private sector can encourage a conflict of interest between the law making process and the influence of a business upon it.

EU Register 2013-14 shows increases in spending

The EU register for lobby spending saw several increases by European banks from 2013 to 2014. While Deutsche Bank had the highest overall spend UBS climbed from the EUR200-250,000 range to EUR1.7m - a seven-fold increase, while Barclays, HSBC and Royal Bank of Scotland at least tripled. The major trade bodies also increased spending. In the long term as disclosure rules are tightened and media interest in fair advocacy grows the risk remains that the spending has the ability to cause reputational risk

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Table 38: European Banks Lobby Data: From highest spend (based on available data – see above for limitations)

		US OpenSecrets (NGO)				EU Register			Transparency International UK Lobbying Survey (NGO)						
Company	**Total EU & US Declared spend (EUR k)**	**Political contributions inc employee PAC in 2015 (USD)**	**Lobbying 2014 (USDk)**	**Lobbying 2015 (USDk)**	**Issues lobbied for in 2015**	**Lobbyists holding prior government jobs**	**EC 2014 European lobby spend (EUR k)**	**Persons on lobby register**	**TI UK 2015 Score (Ext)**	**Control Environ-ment**	**Reporting**	**Political Contri-butions**	**Lobbying**	**Member-ships**	**Revolving Door**
Deutsche Bank	**4464**	**no data**	600	450	Banking (1); Commodities (1); Finance (1); Homeland Security (3); Taxes (1); Intelligence (1)	5 of 8	3,969	16	**no score**	no score	no score	no score	no score	no score	no score
HSBC	**4256**	**192,560**	3,206	2,505	Taxes (7), Banking (7), Trade (4)	6 of 10	1,500	11	**E**	C	E	C	F	F	F
Credit Suisse	**2281**	**105,450**	1,180	710	Finance (7); Taxes (5); Banking (2); Retirement (1)	7 of 14	1,500	6	**no score**	no score	no score	no score	no score	no score	no score
Barclays	**1979**	**28,000**	510	220	no data	no data	1,736.62	8	**C**	B	A	A	A	D	F
UBS	**1907**	**530,750**	260	370	Finance (2); Taxes (1)	3 of 9	1,500.00	6	**no score**	no score	no score	no score	no score	no score	no score
RBS	**1363**	**no data**	530	330	Finance (4); Banking (1)	2 of 5	1,000	3	**E**	E	E	C	E	F	F
BNP Paribas	**1000**	**no data**	no data	no data	no data	no data	1,000	13	**no score**	no score	no score	no score	no score	no score	no score
Santander	**766**	**no data**	190	60	Finance (1); Tele-communications (1)	3 of 4	700	12	**no score**	no score	no score	no score	no score	no score	no score
Lloyds	**600**	**no data**	no data	no data	no data	no data	600	1	**D**	C	B	C	C	E	F
Societe Generale	**500**	**no data**	no data	no data	no data	no data	500	5	**no score**	no score	no score	no score	no score	no score	no score
Credit Agricole	**300**	**no data**	no data	no data	no data	no data	300	4	**no score**	no score	no score	no score	no score	no score	no score
Standard Chartered	**300**	**no data**	0	no data	no data	1 of 1	300	3	**E**	C	F	B	F	E	F
Nordea	**200**	**no data**	no data	no data	no data	no data	200	1	**no score**	no score	no score	no score	no score	no score	no score
ING	**200**	**31,000**	no data	no data	no data	3 of 6	200	3	**no score**	no score	no score	no score	no score	no score	no score
Svenska Handels-banken	**200**	**no data**	no data	no data	no data	no data	200	1	**no score**	no score	no score	no score	no score	no score	no score
SEB Bank	**no data**	**no data**	no data	no data	no data	no data	no data	no data	**no score**	no score	no score	no score	no score	no score	no score

Source: Kepler Cheuvreux

Telecoms, ICT and the digital economy

The telecoms sector reduces inequality through bridging the "digital divide". Given that ICT, connectivity and electronic communications have become part of our daily existence, those with restricted access to it will necessarily suffer forms of exclusion. Productivity gains for individuals, businesses and regional economies are hampered through inferior quality of service or lack of access to it.

According to McKinsey data, of the 4.4bn offline individuals worldwide, 3.4bn of them live in a group of 20 countries, of which 920m are unable to read or write. The overall makeup of the offline populations is of course disproportionately represented by the lowest-income groups. Growth factors can also be attributed to telecoms services, and particularly national internet access; in 2010, the McKinsey Global Institute estimated that the internet contributed to 2.9% of global GDP, two-thirds of which was accounted for by the BRIC countries.

Essential services through new channels

Essential services such as safety depend on the sector. Emergency services are the clearest example requiring effective geographically distributed communications infrastructure. Vodafone has invested in products for electronic emergency contact systems, targeted in particular at security risks for women, for example through technologies at bus shelters.

Distance learning is a driver of social mobility

In our report *Education: What are your kids up to?*, we analysed exposure to this investment theme. The importance of ICT cannot be understated in new channels that are fundamental equalisers of access to education through new technologies such as MOOCs (Massive Open Online Courses). These are equally relevant for large global corporate purchasers of distance learning for employees and external stakeholders (suppliers), whether customised or as access to accredited higher education.

When the "winner takes all" in the digital space

On the downside, the structure of the digital space has led to "winner takes all" tendencies. Network effects, knowledge-based capital and the necessity of global platforms have produced giants that are able to leverage their size disproportionately through global tax avoidance structures and government lobbying presence or, through the nature of their near-monopoly status, to raise natural barriers to entry in their markets. Google in the EU is the archetype of this dynamic and the allegations of rent-seeking behaviour that tend to echo them.

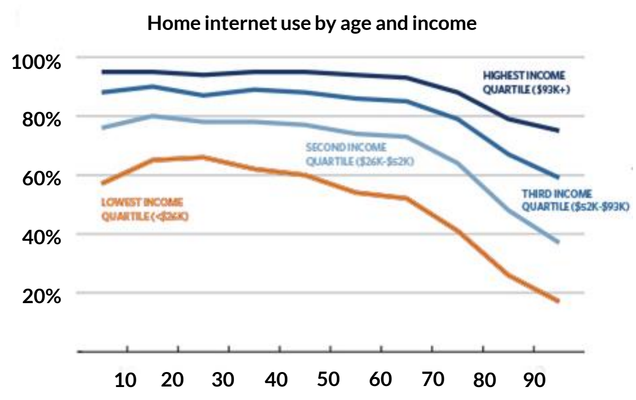
Despite high performance in multiple sustainability areas Google's sheer size has attracted additional ESG risks

In addition, like a number of its large-cap US peers, a cash pile of USD90bn+ incites a tendency towards buybacks where shareholders have been primary beneficiaries of its distribution. While the company itself excels in innovation, maximising human capital, product quality and the integration of sustainability in certain aspects of its business models (renewable sources for its energy intensive servers), alongside a growing philanthropic impact, recent controversies have related to systematic reductions in taxes paid globally and a huge advocacy presence not least in Washington, Brussels and London. Both of these areas are not only potential contributors to forms of inequality, but they can result in increased litigation risk (clearly the case for tax) and reputational risks (particularly with regulators).

Mobile financial services – access boosts economic growth

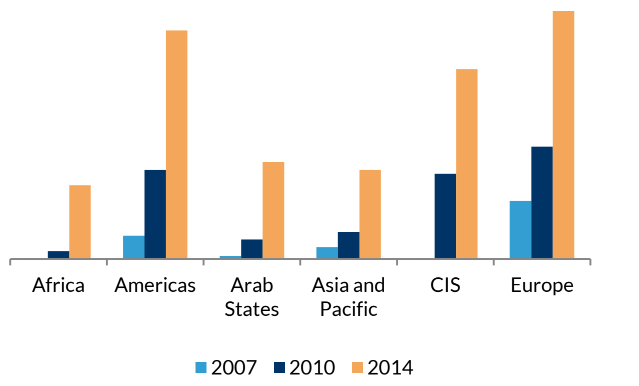
Mobile-based financial solutions, essentially mobile banking, mobile money transfer and mobile payment, are critical for access to financial services in developing countries where it is estimated that 68% (1.7bn) of unbanked people are mobile users. According to BCG's estimates based on a sample of five countries (Pakistan, India, Bangladesh, Serbia, and Malaysia), MFS may help reduce financial exclusion by 5% to 20% (depending on the country) by 2020, and thereby boost these countries' GDP rates by up to 5%.

Chart 44: US home internet use by age and income



Source: American Community Survey, Census

Chart 45: Growth in mobile subscriptions 2007-10-14



Source: ITA

Internet usage still has space for growth in lower income segments especially for middle aged groups

Mobile subscriptions have clearly increased in all geographical areas enabling a new commercial channel to emerge. However even in the US (where mobile and home internet penetration is among the world's highest) clear disparities emerge in access by levels of household wealth. Chart 45 shows for example for home internet that the lowest income quartiles at around the 40 year age group display the largest gap in usage. The economic impact which accompanies this trend includes limitations on consumer growth, i.e. via the reduced online spend of this segment.

Table 39: Telco Inequality Footprint

Key Issues	Business area	Impacts on inequality	Investor materiality (best case)	Company good practice	Controversies
Digital divide	Product & Service areas for underserved populations	Access to communications enables social mobility, education and essential services remotely especially to rural populations or urban low income.	New markets, long term growth, enables geographic penetration, enables innovative partnerships (and sometimes funding)	Millicom	
Supply chain requirements	Audited Social and Environmental standards policy, with evidence of enforcement	Large impacts from complex global supply chains, incremental gains from enforcing basic environmental and labour standards, to be assessed beyond Tier 1	Increased product quality and reliability of purchasing chain, avoidance of reputation damaging disasters	Vodafone	
Non-standard work	Employment Contracts - prioritising full time work where feasible, and increasing parity for part time and temp contracts in terms of benefits including training and potential to graduate to permanent work if desired (see Social Mobility below)	Increased wage for fewer working hours results in reduced or no net benefit, employees who perform identical tasks should not suffer lower pay and recued access to benefits due to contract type for sustained periods	Improved employee morale, reduced turnover, better skillset, higher quality resulting customer experience	Lack of best practice	
Corruption	Spectrum Licence bribes	Large funds allocated for public services routed to officials	Increasingly aggressive global litigation environment	Vodafone	Telia Sonera impacts via litigation, global investigations and governance changes
Tax avoidance	Profit Shifting to aggressively reduce taxes based on global mobility of company structure and accompanying IP	Base erosion resulting in potential denial of essential healthcare, transport and education services targeted at poorest populations	Commencement of global reform to reduce arbitrage possibilities. Increasingly aggressive global litigation environment	Millicom	Vodafone - numerous settlements though disclosure approach has increasingly focused on key concerns
Anti-competitive practices	Enforced policy against price fixing and abuse of dominant position	Price fixing has disproportionate impact on disposable income of poorest	Reduced litigation and reputational impacts	Lack of best practice	BT Group accused of raising price of rural UK services

Source: Kepler Cheuvreux

Table 40: Millicom Inequality Footprint

Key Comments	Financial materiality
<u>Social mobility (headcount 23,297 in 2014):</u> • 2014 Social Investment (tech related) USD7.6 in Africa and LatAm region out of total self-declared community contributions of USD29.3m • Female senior managers account for 22%in 2014 (19% 2013) but in geographical context (EMs) may not be considered low. Company is aware that female turnover in some regions is high (for younger recruits) - gender diversity programme to target this (no details currently, UK office paid maternity leave extended & US policy under review. Certain sites incorporate breastfeeding rooms (Bolivia/ Paraguay). • 84% senior managers recruited locally according to company • Mobile Learning launched 2014 subscription based service for students from school level to university from USD0.02 per day to USD16 per month. Expansion in 2015, take up details welcome. • Mobile Financial Services(Tigo) •	Leveraging local communities and demographics
<u>Production & supply chain</u> • Long term moves (five-year plan) to improve supplier monitoring and obligatory contract clauses for suppliers including worker rights, labour and environmental but further detail needed on follow up and implementation with the 61% of strategic suppliers who have signed this Code of Conduct. •	Socio economic disparities heightening supply chain risk from labour disputes to health and safety
<u>Product impact</u> • Deep penetration in numerous developing markets with significant low income exposure • Infrastructure Investment: USD1.2bn in 2014 or 19% in Capex (excl. Spectrum) • Digital Divide: expansion to remote areas (93% of Bolivia 2G coverage), Tigo Chad first 4G operator (ultra high speed data), DRC Congo overall 2&3G expansion incl. 3G Launch in Katanga • CDP performance band: B (environmental initiatives impact) • GSMA global energy efficiency benchmark undertaken for first time in 2014, "slightly above industry average" – spanning 40 operators, 145 countries and 50% global subscribers. •	Revenues derived from low ARPU customers Leveraging mobile penetration in BoP market in cross sector applications – health, insurance, mobile financial services, m-agriculture
<u>Business ethics</u> • Corruption: Recent Guatemala accusations a surprise as anti-corruption record has been good in view of good practice anti-corruption policy and lack of prior investigations despite highest risk profile (EM geo based) versus peers • Tax policy approved by Board, reviewed yearly disclosure is s appositive but tax risk remains. Some regional tax paid disclosure (Central & South America, Africa) • Although numerous CSR policies are disclosed more data on implementation, integration into risk management, staff training ; audits and global reach welcome • GRI EC1 criteria used to disclose Economic value generated and distributed	Regulatory exposure, reputational damage and penalties, esp. from US authorities Imbalances in stakeholder distribution to governments and employees increase labour risks, litigation risks, potential reputational impacts and indirect long term effects of externalities (wage-consumer demand effects)

Source: Kepler Cheuvreux

Table 41: Telefonica Inequality Footprint

Key comments	Financial materiality
<u>Social mobility (headcount 123,700 in 2014):):</u> • 2014 hiring of 9047 under 30s, 3.5% increase YOY. • Global Scholarship programme covered 1832 young people • 95% of direct workforce on permanent contracts • 7048 teleworking contracts • 21% female manager, 38% overall representation in workforce (comparable to Millicom) • 24%+ increase in training from 2013 incl. e-learning and specialised • Company claims extension of Employee Share Plan part of long term incentives but more data required on takeup	Large Employer - Managing turnover in low wage workforce, leveraging local demographics (i.e. youth population)
<u>Production & supply chain</u> • Large supply chain EUR26.4bn + with 12,400 supplier footprint requires increased data on labour and working conditions. • 120 critical suppliers evaluated but no data on follow up actions	
<u>Product impact</u> • Deep penetration in numerous LatAm markets with significant low income exposure • Digital Inclusion strategy shows potential: “Universal Service” includes basic comms services to users on request to reduce digital divide (geographically underserved targets) • Healthcare, digital learning ventures but data lacking • M2M solutions for cleantech sector but impact not assessed	Revenues derived from low ARPU customers Leveraging mobile penetration in lower income & BoP market in cross sector applications – health, insurance, mobile financial services, m-agriculture
<u>Approach to labour</u> • Telefonica for example was criticised for paying senior executives EUR450 in incentives shortly after announcing 20% cuts to its workforce.	
<u>Business ethics</u> • Tax disclosure aggregates beyond corporate tax, resulting in a large difference between P&L notion of tax and CSR “taxes paid”: further clarity needed or reputational risks could arise • Anti-competitive behaviour : EU fine of EUR152m based on squeezing broadband competitors in 2007 resulting in restricted completion and pricing	Increased litigation risks globally

Source: Kepler Cheuvreux

Table 42: Vodafone Inequality Footprint

Key Comments	Financial materiality
Social mobility (headcount 101,443 in 2014): • Youth skills included through internships and 600 graduates hired globally • Training programmes leveraged in overall human capital approach • Some family oriented policies to aid recruitment and retention	Large Employer - Managing turnover in low wage workforce, leveraging local demographics (i.e. youth population)
Production & supply chain • Some positive examples of successful implementation of supply chain audit responses: Nine instances 2014/15 of Tier 2 violations on employment of 16-18 year olds. Working hours verification systems also introduced • No information found regarding supply chain wage conditions	
Product impact • Penetration in numerous developing markets with significant low income exposure • Carbon Disclosure Project performance band: B (environmental initiatives impact) • M-Pesa mobile money transfer product: 20m active users, small presence in Agricultural supply chain and targeted at unbanked individuals • Vodafone maps UN Mill. Dev Goal Commitment – however difficulty remains in measuring materiality of impact	Revenues derived from low ARPU customers Leveraging mobile penetration in BoP market in cross sector applications – health, insurance, mobile financial services, m-agriculture
Business ethics • Corruption: Very good for sector, best in class policies in several areas • Tax record is controversial : settlements and tax investigations in UK and India • Country reporting is a positive but overuse of non-corporate tax items in figure for "tax" payments in "total economic" contribution (increases payment by a factor of 10 vs P&L figure) • Above peers on lobbying policy: TI UK survey scores Vodafone C overall	Reputational risk with tax authorities globally leading to increased litigation Protests outside retail stores leading to damages and loss of custom Consistent negative UK press coverage on tax approach

Source: Kepler Cheuvreux

Consumer sectors

Consumer-facing sectors face risks from the drivers of inequality in numerous forms, including primarily the leveraging of low wage supply chains, overall labour policies, inclusive business approaches, and the product & pricing profile of a group. There is a central conflict between lower-priced product ranges (which may be a positive for lower income populations) produced at the expense of poorer working populations usually in developing markets as a result of supply chain labour practices.

Companies don't just want the right policy in place internally; they want to be seen publically as "fairer" contributors to society...

Equitable business and brand desire

Certain consumer-facing companies have increasingly highlighted the equitable nature of their business model and product lines. Those companies that want to be seen as sustainable or socially responsible are increasingly finding that their contribution to wage inequality is a part of this branding. Two large UK companies (SSE plc and Lush Cosmetics) have chosen to follow the Fair Tax Mark Certification and have voluntarily committed to paying the living wage, at the higher levels established by the Living Wage Foundation (rather than the UK government). The commitment extends to both internal UK employees and domestic subcontractors.

...hence the growth of certifications and labels in the social area including most recently The Living Wage Foundation and the Fair Tax Mark in the UK (the two fundamental areas of inequality)

This forms part of a brand differentiation exercise in presenting themselves as responsible businesses overall to consumers but also to engage employees, enhance recruitment ability and improve reputations with regulators. It works only when the company is able to implement and prove real changes rather than using weaker label and certification systems as a PR rubber stamp. H&M (which suffered alongside its peers negative news coverage of allegations of involvement in the Rana Plaza disaster in Bangladesh in 2013 and low-cost production controversies in Asia) has also committed to a living wage in the UK based on the Foundation criteria, and has committed to rolling out living-wage criteria at some of its production sites in emerging markets.

Investor engagements need to address the disclosure of workforce data such as number of temporary and part time workers before sector benchmarking can be better conducted

Retail: competing on service depends on employee engagement

Though the introduction of a living wage or raised minimum wage can assert pressure on margins in the short term, some retailers have noted the beneficial impacts on productivity, for example through reduced turnover on business themselves in implementing living wages for the lowest paid segments of the workforce. Retail and fast-food sectors have seen the largest movement here, with companies such as Tesco, Walmart, McDonald's making clear statements on the integration of improved wages with a better customer experience as part of the business strategy even alongside acknowledgment of the additional pressure on margins that increased personnel costs bring. While pricing has a key place in retail strategy and positioning, customer service increasingly cannot thrive in conditions of minimum wages, poor working conditions and benefits and a long-term lack of career mobility.

While we have several reservations about the use of precarious employment (non-standard contracts such as zero hours and intensive temporary work), a shift has been emerging in addressing low-wage employment and supply chain conditions. Best practice also includes addressing living wage criteria in supply chain pay policies. Investor engagements require companies to address disclosure on these workforce indicators before any sector benchmarking can be performed.

Table 43: Consumer sectors Inequality Footprint

Key Issues	Business area	Impacts on inequality	Investor materiality (best case)	Company good practice	Controversies
Living wage	Decision to pay independently assessed living wage in house	Reduces wage inequality, takes individuals & families out of "working poverty" category	Increased productivity, reduced turnover and associated costs	LIDL in UK has high announced a wage beyond the new legal requirements, H&M commitment to introducing living wage in some emerging markets producer countries Nestle & Unilever commit to UK Foundation standards even for subcontractors	Sports Direct (UK) pushed toward commitment for adherence to increased UK min wage standards, and to consider min wage position of zero hours contract workers
Supply chain requirements	Audited social and Environmental standards policy, with evidence of enforcement	Large impacts from complex global supply chains, incremental gains from enforcing basic environmental and labour standards, to be assessed beyond Tier 1	Increased product quality and reliability of purchasing chain, avoidance of reputation damaging disasters	H&M Supply Chain	Rana Plaza Collapse for textiles supply chain end purchasers & sector as a whole
Nonstandard work	Employment contracts - prioritising full time work where feasible, and increasing parity for part time and temp contracts in terms of benefits including training and potential to graduate to permanent work if desired (see Social Mobility below)	Increased wage for fewer working hours results in reduced or no net benefit, employees who perform identical tasks should not suffer lower pay and recued access to benefits due to contract type for sustained periods	Improved employee morale, reduced turnover, better skillset, higher quality resulting customer experience	LIDL	"Nonstandard work" practices are higher labour & branding risk
Social mobility	Training, Diversity, Non Discrimination, Family-friendly policies	Talented Employees able to "climb ladder" , opportunity increases overall skillset and possibility to climb out of minimum or low wage jobs. Maximised Inclusion through diversity in recruitment	Increased productivity, reduced turnover and associated costs	Casino Group non-discrimination policies	
Anti-competitive practices	Enforced policy against price fixing and abuse of dominant position	Price fixing has disproportionate impact on disposable income of poorest	Reduced litigation and reputational impacts		Tesco, Sainsbury's and Asda UK fined for milk & cheese cartel

Source: Kepler Cheuvreux

Large employers: human capital enables social mobility

The overall consumer sector accounts for the largest private sector employment globally particularly among multinational retailers (Walmart is the world's largest single private-sector employer), especially if dispersed supply chains are taken into account. Hence, the role of large listed companies in this sector as employers can influence inequality both nationally (e.g. through human capital and wage policies) and globally through supply chain impacts.

The largest employers influence inequality nationally through domestic wage policies and globally through their supply chain

Moves to raise the lowest wages by US employers such as Walmart and McDonald's have gained significant momentum, leading competing employers to consider similar moves. Staff turnover, customer service levels and recruitment are immediate beneficiaries, aiding business competition.

Youth employment: strategic hiring with potential long term inequality reduction

As one the largest employers of unskilled staff, we highlight younger employees as a major asset in the retail sector. Targeted recruitment can allow cost effective long-term retention and the ability to launch specific skillsets relevant to the company through customised youth training. Of greatest importance is overall human capital approaches including recruitment and integration approaches for under 25s, training and progression opportunities which can be scaled into company-wide policy.

While the company rationale of launching specific programmes for youth and the disadvantaged young (unemployed) may include branding and CSR aspects and the overall numbers may be small, the existence of the schemes is important in building entry points into employment. Many UK retailers have established specific programmes in this area, including targeting at disadvantaged lower-income groups, sometimes in partnership with specialist associations:

Table 44: UK retail programmes: youth

Company	Name of programme	Nature of programme	Duration	Cost	Target of programme	Partner
M&S	Make your Mark	Work based placement	Six weeks	Not disclosed. Includes payment to Princes Trust and covering of lunch and travel costs	To fulfil social duty and build a better business-society relationship	Princes Trust
Tesco	Launch	Work based placement	Four weeks	Not disclosed	To break cycle of no experience no job, no job no experience	Princes Trust
Morrisons	Our club	Work based placement	Not disclosed	Not disclosed	To break the cycle of finding employment	Job Centre, IDG's Feeding Britain's Futures, Centrepoint
ASDA	Get into	Work based course	Not disclosed	Not disclosed	Not disclosed	

Source: Kepler Cheuvreux

However, the lack of data on Under 25s or Youth by other definitions in the sector means that benchmarking exposure to risks and opportunities related to youth employment remains difficult.

Table 45: Casino Inequality Footprint

Key comments	Financial materiality
Income inequality	
• Executive to average employee pay unavailable • Board power concentrated with UHNW CEO Founder (holds controlling stake) • Though poor transparency on exec remuneration criteria, exec pay has been revised downward to reflect performance of company • Employee wage transparency is minimal and no commitment to living wage in any geography	CEO pay alignment with shareholder value Corporate governance: countervailing power
Social mobility (FY2014 Headcount 336,000):	
• Numerous diversity Initiatives at employee level not reflected in board diversity • Strategic position based on demographics in growth countries where young and large populations with organized retail relatively undeveloped • Poor view of Human Capital policies overall however company states 92% employees on permanent contracts • Youth Talents Program in France employs 1900 , variety of training programs globally including e learning, some apprenticeships and “firstjob” schemes (10,540 hires Argentina, 950 in Brazil), with employee turnover low for sector. Employee Volunteer Scheme 41% employees under 30. Fighting Exclusion program targets underprivileged populations • Training spend in line with peers • Volunteer Schemes for permanent employees	Large employer - managing turnover in low wage workforce, leveraging local demographics (i.e. youth population) Access to youth employees has potential for value and long term retention
Production & supply chain	
• Discount lines integrated in offerings increase pressure on Supply Chain in relation to subcontracted employee conditions	Supply chain cost pressure
• Sustainable fishing (Marine Stewardship Council) more such initiatives in supply chain would be welcome	Better management of brand and health & safety risks
Product impact	
• Climate change: GHG Intensity per square foot above average for those few peers that disclose	
Business ethics	
• Considering geographical exposure evidence of good risk management to date on corruption • Exposed to anti-competitive behaviour risks	Increased enforcement in certain emerging regions

Source: Kepler Cheuvreux

Table 46: Tesco Inequality Footprint

Key comments	Drivers of financial materiality
Income inequality • CEO pay ratio 29.6 (Sainsbury's 47.6) • Current CEO received termination payment from Tesco in 2015 for taking on new role, includes a clawback clause if "gross misconduct" found • Former CEO & CFO remuneration scrutinised following GBP263m profit overstatement, pay settlements agreed with Tesco to avoid legal challenge • Employee Share Scheme "Save As You Earn"	CEO pay alignment with value for shareholders and other stakeholders Executive Accountability Small impact on "Wealth Inequality" for employee participants who access non income sources of gains
Social mobility (FY2015 headcount 386,086): • Numerous diversity Initiatives at employee level "Women in Leadership" not reflected in board diversity (BoD 27%, senior managers, directors 22% and senior directors and managers 30% All 57%) • Approx 6000 Apprenticeships (including school leavers) with possibility of external qualifications, claims to employ 100,000 young globally (Youth consultation panels age range 16-28) • Online learning is appropriate channel for business model and usage rate compares well to peers, doubling from 20,000 to 40,000 • Around 4,900 iob cuts since 2015 and ongoing uncertainty on large scale job losses in next three years, potentially with North England and Scotland more affected • Exposure to UK Living Wage	Large employer - Managing turnover in low wage workforce, leveraging local demographics (i.e. youth population) Access to youth employees has potential for value and long term retention Opportunities in human capital enhancement can offset some pressure on margin as a result of increased UK minimum wage
Production & supply chain • Discount lines integrated in offerings increase pressure on Supply Chain • UK Groceries Code Adjudicator concluded Tesco "acted unreasonably" in withholding payments to suppliers potentially in order to enhance their own margins	
Product impact • Climate change: store ratios for GHG Intensities at or below average for those peers that disclose • Food waste: 55,400 tonnes in 2014/15, (56,580 t 2013/14) , CEO joined collective new initiative launched 2016 named "Champions 12.3" to halve food waste collectively by 2030. Food Collections include 8.5m donations • Some customer health initiatives to reduce calorie count & visibility of sugary products (impact hard to measure) • Lowest GHG per square foot emissions (among five European peers that disclose)	Reputational damage i.e. from 2013 horse meat scandal, temporarily impacted sales and consumer trust Food Waste a cost for business as well as misuse of natural resources
Business ethics • Accounting fraud, profit overstatement GBP326m 2014 for allegedly manipulating supplier payments • Consumer pricing controversy–misled customers over "half price" status of strawberries	Potential GBP500m penalty misleading pricing , additional potential shareholder class action type claims Penalty GBP300,000 plus GBP65,000 costs in UK for special offers (2013) and consumer trust impacts

Source: Kepler Cheuvreux

Food & beverages

The manner in which natural resources are commercially used is a fundamental driver of inequality. Food and beverage companies are key players herein. The largest chocolate manufacturers including Nestle for example consume over 10% of global cocoa supplies. Therefore, requirements for farming practices in relation to this commodity by end purchasers can have a significant impact on labour management, wages, diversity of workforce, and the local environment via land and water impacts.

Breast milk substitutes: inequality drivers make this a high-risk product

For decades, controversies relating to breast-milk substitutes have dogged the sector, particularly in developing countries.

Despite the companies themselves (including Nestle and Danone) claiming compliance with the International Code of Marketing of Breast Milk Substitutes and WHO recommendations, NGOs publish regular allegations of violations.

The risk of potential legal and ethical violations are increased in regions with high inequality levels, driven by factors including overall rates of malnutrition, child mortality, access to midwives, the Human Development Index and access to clean water. Furthermore, the likelihood of a negative impact from misuse or mis-marketing of breast milk substitutes is also significantly increased through local levels of corruption which enable inappropriate marketing practices.

Danone encountered such allegations in China in 2013 when state-sponsored TV aired a documentary citing healthcare professionals giving milk powder in return for payments. The overall impact, conflated with other allegations of price fixing and safety (which were proved false), dented Dumex sales and branding in the country.

Infant formula products themselves can be beneficial, but their marketing, pricing and use given the alternatives in certain socio-economic contexts remain highly problematic

Table 47: Nestle Inequality Footprint

Key Comments	Financial materiality
<u>Exec remuneration</u> • Highest exec pay and average employee pay among peers • CEO pay ratio of 186 versus Unilever 143 , Danone 90 • CEO pay reduced, some pressure in Switzerland, Say on Pay Provision	Exec pay alignment with stakeholder value creation including shareholders
<u>Living wage</u> • Nespresso target to purchase 100% AAA programme coffee by 2020 (Nestle claims AAA farmer incomes 46% higher) • Nestle could consider paying a floor living wage based price rather than market price under certain conditions for Cocoa Plan • Showed leadership as a UK Living Wage Employer (8000 staff) extending commitment to all UK contractors (800)	Potential Living Wage benefits for productivity, turnover and employee morale Emerging Markets FY2015 42.6% Revenue by Origin: Containing clusters of BoP, low income and emerging middle class markets
<u>Social mobility (FY2015 headcount 335,000):</u> • Nestle has a solid reputation for talent management, with excellent internal training and family friendly working policy	Maximising employee productivity, reducing employee turnover costs
<u>Supply chain</u> • Nestlé Cocoa Plan(Nestle one of the world's largest cocoa production consumers) includes promotion of school attendance, farmer training, traceability for group, reduction of deforesting impact, child labour, high yield agriculture , addressing women's issues by enabling female agricultural workers however further implementation data and increased geographical scope would be welcome (only20% cocoa current coverage, 37.5% target by 2017) • Deforestation and palm oil policy reform since Greenpeace campaign has been ongoing. • Nestlé's milk district model further illustrates the importance of building local clusters/ reducing intermediaries and integrating local producers.	Large global supply chain exposed to inequality driven risks including wage disparities, and other labour and environmental factors Nestle's claims model helped to gain 20% market share for several products in the high margin Indian dairy market.
<u>Product impact</u> • Strong criticism of baby milk impacts, particularly financial and health impact on mothers/ infant in developing countries (WHO calculation 1.5m infant deaths pa from inappropriate feeding and resulting disease) • Debate over bottled water involves additional and disproportionate cost for the poor, resource use, disposability, logistics impact, purity of water, access rights and the consequence of reduced pubic water infrastructure investment. Pakistan "Pure Life" brand strongly criticised for reducing water table near production site , where local communities complain of access to water issues	Higher risk products more vulnerable to controversy and brand damage
<u>Approach to labour</u> • Strong Criticism by Unions in developing countries including Philippines, Colombia, Peru, Russia , Indonesia and Pakistan	Potential effects of industrial action
<u>Business ethics</u> • Insufficient disclosure on lobbying positions, including labelling, child nutrition, infant formula rules, advertising for child audiences • Consistent controversies of price fixing allegations in several territories • Though real implementation is evidenced in some areas Nestle plays the disclosure game well • Excellent performance in Behind the Brands ranking (2nd and 1st in 2015/14 respectively)	Some regulatory tightening in business ethics legislation overall and enforcement

Source: Kepler Cheuvreux

Table 48: Unilever Inequality Footprint

Key comments	Financial materiality
Exec remuneration	
• Unilever CEO Pay ratio of 143 vs Nestle 186 , Danone 90 • CEO Polman 2016 statements on Inequality as biggest "obstacle" to sustainable future (for Ford Foundation)	Exec pay alignment with stakeholder value creation including shareholders
Living wage	
• UK living wage employer commitment a positive; extension to other regions welcome. • Current development of "Framework for Fair Compensation" addresses holistic concerns on wage package and requirements for supply chain with a target to extend fair wage analysis over next three years to third party labour suppliers and outsourcing organisations. • Active engagement with NGOs on this topic such as Asia Floor Wage Alliance • Fair Wages addressed as a part of 2015 Human Rights Plan	Potential living wage benefits for productivity, turnover and employee morale Both BoP and emerging middle class markets are potential sources of growth Potential industrial action effects on supply chain in emerging markets
Social mobility (171,000 headcount FY2015):	
• Specific programmes on women's training • Unilever has a solid reputation for talent management, with excellent internal training and family friendly work policy • Harassment identified as a salient issue 2014, with high number of breaches of Code in Brazil and East Africa. Increased awareness raising activities with unions being rolled out in 2015 for IUF/Industrial operations • Staff turnover not reported	Maximising employee productivity, reducing employee turnover costs Internal training programme boosts retention and attractiveness for employees
Supply chain	
• Sustainable Living Plan announced broad range of targets in 2014 to include supply chain impacts? Notable target on environment includes reducing environmental footprint by 50%, addressing lifecycle impacts and reduced water abstraction (32% reduction 2008-14), waste (85% reduction 2008-14) • AIDS in workforce of some sites in emerging markets identified as key health issue – especially Sub-Saharan Africa where free testing for employees, prevention and awareness raising programmes and access to care. Spend details not available. • Certain production sites in areas of high child labour use i.e. vanilla production in Madagascar, also India and Vietnam. Further direct audits into sub suppliers needed according to NGOs.	Shift to externalise production in last decade increases range of risk exposures to inequality in supply chain from wage factors, child labour, and health and safety
Product impact	
• Hygiene, sanitation and water purification products a growth market with clear BoP market exposure and social impact. Target for improved access to toilet facilities for 25m	Opportunities in underserved markets – (esp. emerging countries)
Approach to labour	
• Criticism by Unions in developing countries including Pakistan and overall criticism that Unilever Sustainable Living Plan does not address concerns of its factory workers globally, esp. use of zero hours contracts and agency labour. "Human Resources for Factories" programme rolled out by Unilever. • Like most peers Unilever moved to scrap final salary pension and faced UK industrial action in 2011 as a result • Work with NGOs has been constructive on labour	Disruption to production from labour disputes and poor work conditions
Business ethics	
• Insufficient disclosure on lobbying positions, including labelling, child nutrition, infant formula rules, advertising for child audiences • Consistent controversies of price fixing allegations in several territories • Human trafficking identified as high risk issue and best practice guidelines implemented including recruitment fees, contract terms, freedom to return home, non-confiscation of passports. Further implementation data required in order to assess effectiveness. • Tax disclosure approach and policy ahead of peers	Consumer branding approach for food products includes health and safety aspects and requires ethical concerns to be addressed Overall risks from corruption, price fixing, tax avoidance practices have grown

Source: Kepler Cheuvreux

Table 49: Danone Inequality Footprint

Key comments	Financial materiality
<u>Exec remuneration</u> • Danone Pay Ratio 90, Unilever 143 vs Nestle 186	Exec pay alignment with stakeholder value creation including shareholders
<u>Living wage</u> • Reporting on Minimum salary/ minimum legal salary ratio shows 14 subsidies as having no legal minimum wage (2% of employees), otherwise 95% of employees have basic starting salary above local minimum. Company states 0% of employees are paid below legal minimums (where they exist) • Compared to Nestle and Unilever, Danone discloses little on commitment to living wage, or investigation of including living wage criteria in pay formulation	Some Living Wage benefits for productivity, turnover and employee morale Potential industrial action effects on supply chain in emerging markets
<u>Social mobility (99,781 headcount FY2015):</u> • Scores very poorly on women's rights (1/10) in Behind the Brands • Danone has a solid reputation for talent management, with excellent internal training and HR working policy, family friendly • Focus on Local Hiring (materiality = knowledge of local issues fundamental to commercialisation of products): with target to achieve 80% local managers on all Exec Committees. For 2014 66% directors hired locally •	Maximising employee productivity, reducing employee turnover costs
<u>Supply chain</u> • Poor performance in Oxfam Behind the Brands Survey. Though the survey is transparency based Danone and therefore will penalise companies who do not disclose according to preset criteria and perhaps disproportionately reward those that do, Danone clearly could do better in communicating numerous material social criteria related to its supply chain such as land use, women's rights • Identifies transport a key source of GHG emissions with focus on reduction	Large global supply chain exposed to inequality driven risks including wage disparities, and other labour and environmental factors
<u>Product impact</u> • Criticism of baby milk impacts, particularly financial and health impact on mothers/ infant in developing countries (WHO calculation 1.5m infant deaths pa from inappropriate feeding and resulting disease). Significant issues in China in 2013 which damaged Dumex brand due to price fixing and bribery issue s (nutrition program allegedly illegally incentivised medical workers) and also allegations of contamination of ingredients (which turned out to be false) • Aptamil in Turkey also alleged 2013 mis-marketing in the campaign that targeted mothers' under producing breast milk	Consumer branding approach for food products includes health and safety aspects and requires ethical concerns to be addressed Infant formula considered damaging to the health in lower income countries Both BoP and emerging middle class markets are potential sources of growth
<u>Business ethics</u> • Insufficient disclosure on lobbying positions, including labelling, child nutrition, infant formula rules, advertising for child audiences • Consistent controversies of price fixing allegations in several territories • Scores very poorly on land rights(2/10) Behind the Brands 2015 • Danone's Impact Funds: 100m EUR, 4m beneficiaries globally • Danone Ecosystem Fund, 54m Euros focuses on small business and local economies via Distribution (e.g.. Social Inclusion), Sourcing (e.g.. Sustainable Agriculture), Caring Services (e.g.. Micro-Entrepreneurship) , Recycling and Territory (e.g. Watershed Protection) , . • Danone Communities Fund EUR7m targets seven countries (Bangladesh, Cambodia, China, France, India, Mexico and Senegal) and social issues from access to water to malnutrition. • Danone Livelihoods Fund EUR40m • Employee skills sharing programmes	Suffered prolonged brand damage in China resulting from business ethics scandals originating from price fixing Lower income markets can be leveraged through impact funds

Source: Kepler Cheuvreux

Healthcare

The sector provides not only essential products and services, but lifesaving ones. Drug affordability is a key global inequality issue, which has become increasingly controversial, not just in emerging markets where access to medicines has long been a central policy issue, but in the US, where the polarised healthcare system has led to the absolute costs of healthcare impacting inequality despite universal availability. Hospital care costs (among the highest in the developed world) rather than drug costs have been the major factor.

Universal availability of healthcare need not mean "access" to essential healthcare services if the absolute costs are still prohibitive for the lowest income populations

The challenge to branded pharma has grown in many markets but particularly in the US (world's largest pharma revenue source) through pricing pressure. In the US, the generics market was estimated as USD43.5bn in 2013 by RNCOS with an 11% CAGR through to 2018. Furthermore US pharmacy benefits manger Express Scripts maintains biosimilars offer savings of USD250bn+ over the next decade with USD39bn in the next three years. Novartis's Sandoz is an emerging leader in biosimilars. Ultimately growth in this market will reduce prices of some of the most expensive drugs and in the process theoretically increase budget available from healthcare spend to be allocated to R&D for innovation.

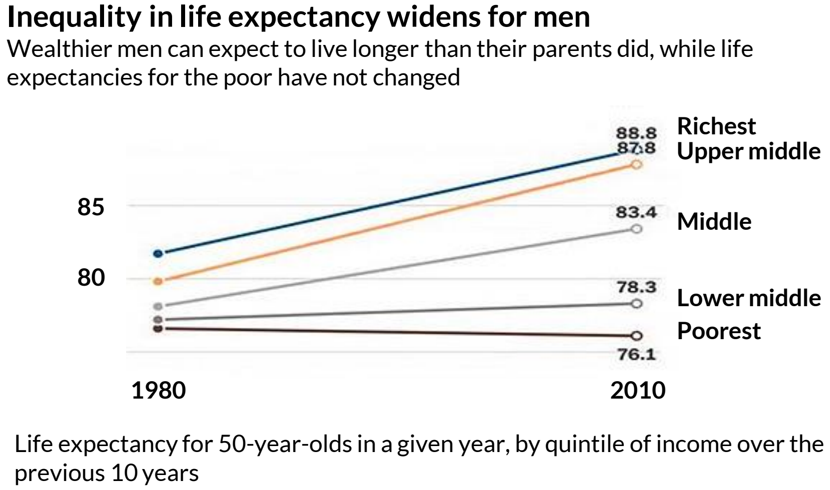
Emerging markets see large pharma companies provide free or subsidised medicines – generally older drugs or vaccines that treat HIV, tropical or childhood diseases. GSK, Novartis and Sanofi practice varying forms of such donations and subsidies.

However, a greater impact can be made through drug development targeted at poorer countries. GSK has been a leader herein (i.e. the dengue vaccine).

Live longer in regions of lower inequality

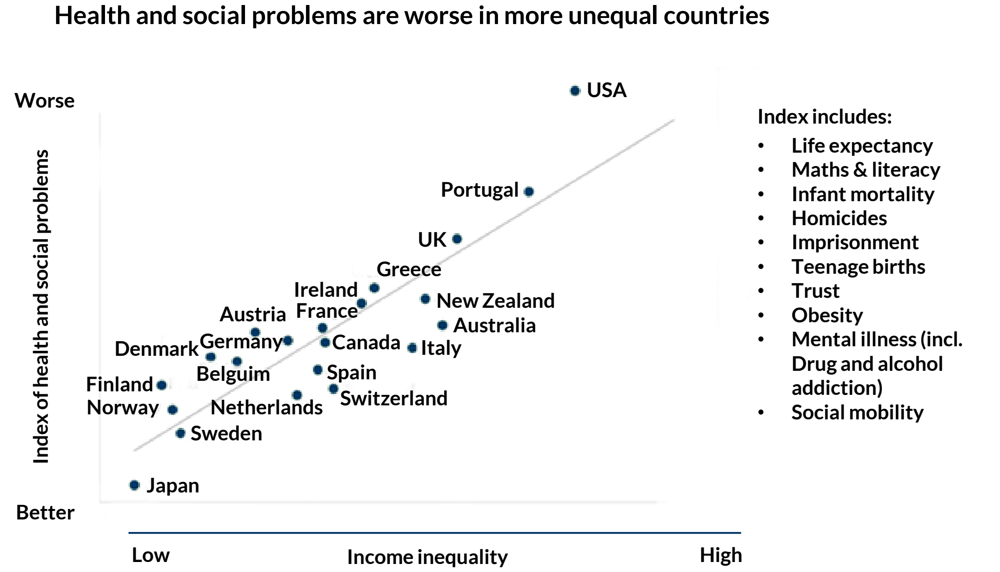
Life expectancy has always been closely tied to inequality. Those regions experiencing the highest levels of poverty even in the richest countries also showed a marked regional discrepancy in terms of life expectancy (e.g. Glasgow in the UK). Chart 48 also shows UK and the US particularly as outliers among rich nations where income inequality is higher and so to the accompanying health and social impacts.

Chart 46: The sprit level: life expectancy and inequality



Source: National Academies of Science, Engineering and Medicine

Chart 47: Healthcare inequality by country



Source: The Equality Trust

Universal health coverage

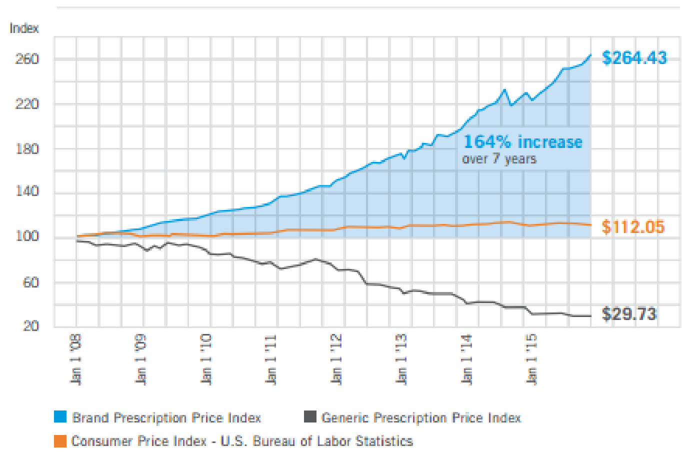
Globally, beyond Europe, the majority of the world still has limited or no health insurance. In developing countries, patients in the most economically deprived regions will also tend to have systematically the worst access to doctors and healthcare professions. The emergence of viable access to medicines and pricing policies by global pharma, biotech and medtech companies in regions where health cover is poor or absent can be an important factor in balancing some of the weakness of institutional state-managed healthcare.

Hedge funds and speciality pharma: inequality in the spotlight

In 2015, renewed focus fell on hedge funds and their involvement in the sector. At one end of the spectrum, hedge funds can short companies while simultaneously launching patent challenges. While some view this cynically as a solely a short-term profit-driven motive, others argue the merit of greater patent challenges.

A political mandate against "price gouging" has emerged in the US where a clear zero sum game takes place through enormous wealth generation which follows at the expense of the poorest patients. An example is biotech firm Turing (whose CEO Srieklli has generated considerable controversy) who purchased drug rights and hiked prices by over 50x - in the worst case, Daraprim, an Aids drug, was hiked from USD13.50 per tablet to USD750. However, the largest US pharmacy benefit manger Express Scripts partnered with an alternative provider Imprimpis Pharmaceuticals to offer a low cost alternative of USD1 capsules. As some of the medicines that have followed the same price treatment (e.g. Valeant) are used in cancer treatment and blood clotting, the impact on patient care is clearly not negligible.

Chart 48: Express Scripts Prescription Price Index (US)



Source: Express Scripts

Hedge funds also had their fingers burnt in recent years when aggressively piling into certain M&A plays where tax savings were a driving rationale through so-called "inversions", where a company relocates a headquarters from the US to a lower-tax country through acquisition activity (bid speculation in 2014 concerning AstraZeneca and Shire was a prime example).

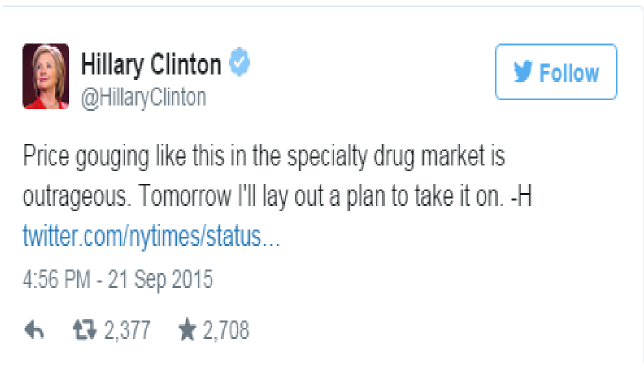
Awareness of "price gouging" was popularised after a tweet from Hillary Clinton and led to a one-day drop of 4.5% of Biotech ETF shares

With regards to pricing, any changes in US policy can have a significant potential impact on global pharma firms given that the US is the largest single market and accounts for approximately 40% of total global pharma sales. US per capita annual spending on medicines doubled over 2000-12 to USD1,010, versus the USD498 OECD average.

From Clinton to Trump, fighting price-gouging with a subtext of inequality looks good politically

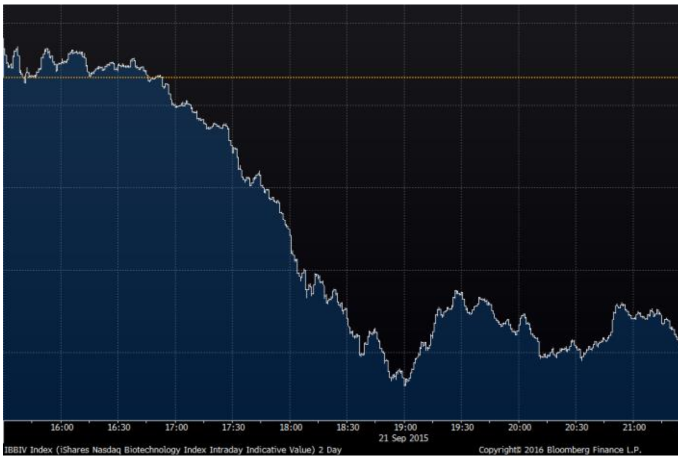
Among Clinton's proposals are an obligatory share of revenues dedicated to R&D and a monthly out-of-pocket prescription drug cap of USD250. Any such threat to free market pricing regimes (compared to most other regions) can be demonstrated in the sharp falls in biotech stocks following Hillary Clinton's threat to review price gouging practices following outrage related to the price rise multiples cited above.

Chart 49: Hillary Clinton threatens US pricing policy…



Source: Kepler Cheuvreux

Chart 50: …and biotech stocks drop the same day



Source: Bloomberg

The US: higher-cost healthcare

Drug price increases (vs. other countries) in general have put higher pressure on payments by health insurers and governments (i.e. Medicare). The resulting impact has been higher out-of-pocket expenses for patients for both healthcare insurance costs and co-pays for drugs. Those with the least disposable income are the most impacted, hence the material impact on inequality. GSK (including statements from the CEO) stands out as the most outspoken in needing to control US drug prices (however, their portfolio has limitations as to how much prices can be increased).

Health debts: highest cause of US personal bankruptcy

Unpaid healthcare bills remain the largest source of US personal bankruptcies (c. 2m a year). A 2013 Ernst Young Study found that healthcare accounted for the largest proportion of overall debt collection in the US (38%), exceeding student loans (25%) and credit cards (13%). Regulatory changes based on the Affordable Healthcare Act attempt to tackle some of the structural causes of debt, including the large differences in care costs from hospitals and healthcare professionals by state.

Trade agreements and patents

MSF and a number of NGOs have launched strong campaigns against recent trade agreements which in their view give heightened intellectual property powers to pharma companies at the expense of poor populations.

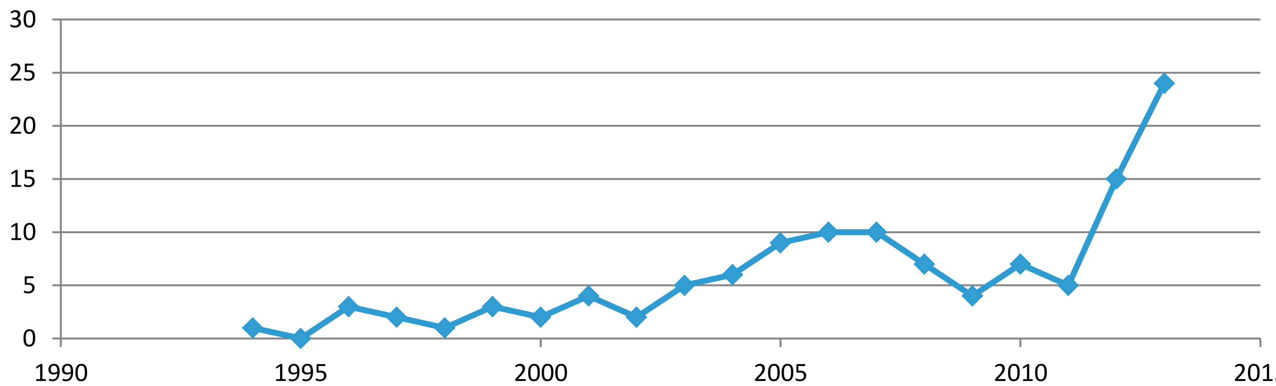
Table 50: Trade agreements and Pharma IP: central to access to medicines debate

Area of TPP	Impact on unequal access
Impose data exclusivity	Extend monopoly on clinical trials data for key molecules requested by generics
Mandate patent linkage	Extend scope of IP ownership between differing products
Lower the bar of patentability	Easier use of legal system to allow abusive assertion of rights

Source: MSF, Kepler Cheuvreux

One of the most controversial areas is the Investor-state dispute settlement (ISDS), where large businesses are able to sue states for damages in international cases (ongoing cases in the sector include Merck versus Ecuador). NGOs argue that the ISDS system can be rigged in favour of the largest companies against the smaller economies and that most states themselves are less able to hold companies to account internationally. The ISDS has also been used to challenge numerous state tax decisions, as global frameworks in this area remain largely unharmonised.

Chart 51: Number of ISDS cases initiated between 1994 and 2013



Source: Kepler Cheuvreux

Table 52: Pharma sector Inequality Footprint and investor materiality

Key Issues	Business area	Impacts on inequality	Investor materiality (best case)	Company good practice	Controversies
Access to medicines & drug pricing	Product & service mix, tiered pricing	Key drugs extend lives and life quality both in developing and developed markets, some unaffordable for poorer populations without tiered pricing	Long term markets in certain areas such as vaccines, potential to use BoP markets as wider commercial entry points	GSK – overall approach incl patents , Novo Nordisk on Capability Advancement (Access to Medicines index)	GSK/ Pfizer Pneumonia vaccine pricing – India, US Biotech "price gouging" where R&D investment minimal
R&D investment	R&D Investment central to long-term innovation and changing healthcare needs	Investment creates part of the pipeline relevant to poorest populations	Effective pipeline central to valuation	GSK recognised as a leader but gaps in sector R&D include maternal and neonatal health	Clinical Trials oversight required in emerging markets
Tax avoidance	Avoidance at aggressive end of minimisation	Tax, fundamental instrument of redistribution. In developing markets infrastructure and institution building suffers strong negative affect through corporate tax avoidance	Increased litigation increased regulatory tightening in the long term, stronger brand impact and negative media coverage on controversies. Pharma business model dependent on education systems (incl. University partnerships for trials), technology, logistics and transport systems funded by tax revenue	Though some firms such as GSK have made statements regarding non-use of tax havens, and give some detail on use of tax credits best practice difficult to identify overall due to lack of global disclosure, and country reporting	AZN UK accused of paying zero UK taxes by Guardian newspaper October 2015 but companies responds that there is full alignment with official UK tax incentives
Corruption	Systematic bribe payments	Corruption can lead to sub optimised prescribing especially for poorer populations with budget restricted choices i.e. direction by bribed doctors towards relatively expensive drugs for patients who don't require them or cannot afford them. Impacts felt on healthcare budgets in richer countries and resulting rises in health insurance premiums for the individual. Some negative redistribution of wealth can result from funds diverted from poorer populations paying increased prices to richer populations in some but not all cases (i.e. doctors or key government officials where bribes are larger in quantity or size)	Increased litigation, increased regulatory tightening in the long term, stronger brand impact and negative media coverage of controversies.	All large pharma firms have suffered allegations , the GSK US policy is best practice and there have been no repeat allegations in the US for this firm since its corporate integrity agreement (however there remains a lack of transparency in some emerging markets)	All pharma companies have been affected : GSK largest penalties to date incl. China and the US. Novartis remains exposed due to allegations
Lobbying	Regulatory affairs influence through in-house , external and trade association positions. Key areas of lobbying for pharma sector are related to drug pricing, clinical trials, patents and taxation	Large pharma may have disproportionate ability to influence regulation at the expense of general population and other stakeholders	Regulation remains weak globally, but some long term efforts at tightening are being launched alongside increased reputational impact from willingness of media to treat subject	No best practice though in isolated areas some policy is better disclosed	Trade Agreements & Patent duration lobbying which can affect access to medicines

Continued on next page

Pharma sector Inequality Footprint and investor materiality….continued

Ant- competitive practices	Closely tied to ATM issue. Balance between recouping R&D spend and excessive "rent seeking" use of patent law and private agreements between firms (to restrict competition through pay for delay deals)	Especially where lower priced or generic competitors are concerned impact on population and government healthcare spend is negative where lower priced competition kept off market	Some regulatory tightening, and evidence of increased litigation	All large pharma have had litigation on this issue. Good policy disclosure from BMS	Teva fined 512m USD in 2015 for anti-competitive practices in US
Social mobility	Training, Diversity, Non Discrimination, Family friendly policies	Talented Employees able to "climb ladder", opportunity increases overall skillset and possibility to climb out of minimum or low wage jobs. Maximised Inclusion through diversity in recruitment	Skilled talent drives profitability in the sector. Increased productivity, reduced turnover and associated costs	All large pharma disclose good policy on training	-

Source: Kepler Cheuvreux

Workforce disclosure remains patchy, Sanofi and GSK don't report employee turnover

Disclosure remains a problematic area, even in human capital where more data is available in comparison to other social areas (e.g. human rights). Key areas missing included employee turnover from Sanofi and GSK. In context, as a measure of the Eurostoxx 600 we count 276 companies which do not disclose turnover (according to Bloomberg data). Gender diversity data however was more readily available alongside evidence of relevant human capital initiatives.

Almost half of STOXX600 companies don't disclose employee turnover

Table 53: Human capital related disclosure - European large pharma (in order of headcount)

Name	Country	Headcount 2014	% Employee Growth 2012-14	Emp Turnover %	% Emp Unionised	Temp Employees	Tot Hr Spnt by Firm Empl Trng	% Women in Mgmt	% Women on Bd	% Women Emp
Median		98,702	-0.8%	0	52	5951	2431716	40.5	20	47
Novartis	Switzerland	133,413	4.3%	13.2	43	6272	3602151	41	18.2	47
Bayer	Germany	118,888	7.5%	11.0	52	5200	N/A	26	20.0	41
Sanofi	France	113,496	1.3%	N/A	N/A	5951	1261282	40	20.0	45
GSK	Britain	98,702	-0.8%	N/A	N/A	N/A	N/A	42	35.7	43
Roche	Switzerland	88,509	7.3%	8.3	53.25	N/A	N/A	40	20.0	48
AstraZeneca	Britain	57,500	7.0%	12.3	N/A	N/A	N/A	40.5	30.8	49.9
Novo Nordisk	Denmark	40,957	16.3%	9.0	N/A	N/A	N/A	41	27.3	50

Source: Bloomberg, Kepler Cheuvreux

Table 54: GSK and Novo Nordisk Inequality Footprint

Company	Themes (positive or negative impact)	Materiality
GSK	• (+)Ranked 1 in Access To Medicines Index 2014 & 2012 • (-)Pneumonia vaccine producer (disease is single largest cause of child death) but NGO MSF maintains pricing too high • (-)Business Ethics has been high concern area with numerous allegations, a recent 500m USD China penalty and continued US FCPA exposure • (+)Some disclosure on tax policy including use of tax havens and tax credit R&D amounts • (-)While ATM Patent Policy is strong GSK it has undergone litigation especially in the US related to anti-competitive behaviour vis IP practices with implications for drug pricing and poorer populations. • (+)Commitment not to seek patent protection in low income countries to allow greater generic copies of GSK drugs • (+)Though a lobby policy exists further colour on actual spend and approach to trade agreements would be welcome • (+)Social Mobility: GSK has a solid reputation for talent management, with excellent internal training and HR working policy	Potential growth markets via ATM & reputational enhancement Pneumonia a WHO recommended vaccine, increased competition in this area from emerging markets producers (i.e. India) Business Ethics has been high concern area with a history of major penalties numerous allegations (at least USD7.3bn in penalties since 2007 across tax avoidance, mis-marketing, bribery and supply chain safety ,including a recent 500m USD China penalty and continued US FCPA exposure. Further US litigation, as with most large pharma caries risk of being dropped from payor programmes
Novo Nordisk	• (+)Ranked 2 in Access to Medicines (6 in 2012) • (+)CEO has developed reputation carrying through Novo as a core holding in SRI funds and also returning shareholder value more broadly. • (-)Current tax controversy surrounds use of IP between Denmark and Switzerland, further policy detail on use of low tax jurisdictions with country reporting would be welcome. • (+)Overall above average management and implementation of business ethics issues including lobbying • (-)Weakness in licensing, however Bottom of Pyramid markets integrated in long term diabetes treatment target • (+)Social Mobility: Like peers Novo Nordisk has a solid reputation for talent management, with excellent internal training and HR working policy	Access to Medicines integrated into business model Tax case alleges USD1bn liability, raised by home country Denmark for IP use in transfer pricing via Switzerland. Base of the Pyramid project targets low income groups in developing markets (diabetes market for this group estimated to from 46USDm to 73.5USDm in 2030) Novo Nordisk has a reputation for working in communities in emerging markets to provide not only affordable medicines, but also better healthcare awareness and education

Source: Kepler Cheuvreux

Table 55: Sanofi and Novartis Inequality Footprint

Company	Themes (positive or negative impact)	Materiality
Sanofi	• Ranked 8 in Access To Medicines Index 2014 • (-)Dropped from 3rd position in 2012 – equitable pricing covers limited products/ countries and public policy score shows big decrease • (+)Capability shows a big increase with 60% of African products produced locally and use of mobile services for diabetes • (-)Business Ethics has been a higher concern area • (-)Effective Tax rate has been lower than peers without additional disclosure • (+)Exceeds peers in disclosure related to lobbying • (+)Social Mobility: Like peers has a solid reputation for talent management, with excellent internal training and HR working policy	Potential growth markets via ATM & reputational enhancement One third of sales from emerging markets Leveraging growing Diabetes market One third of sales from emerging markets Sanofi's generics business has provided better access to more traditional drugs in Eastern Europe.
Novartis	• (+)Ranked 4 in Access to Medicines (7 in 2012) showing solid improvement • (+)Expanded Social Business Group, Access to Medicine Committee is chaired by CEO • (-)Some business ethics controversies on anti-competitive behaviour and bribery • (+)Leads on pharmacovigiliance – voluntarily sharing safety reports in ATM countries • (+)Novartis Access portfolio (15 meds) offered in low and middle income countries for USD1 per treatment/ month • (+)Social Mobility: Novartis has a solid reputation for talent management, with excellent internal training and HR working policy	Potential growth markets via ATM & reputational enhancement Initially a large (USD3.3bn) alleged demand from US authorities in US bribery case though final settlement smaller, ongoing controversies, i.e. the US and Turkey Sandoz an emerging leader in biosimilars (to bring down pricing) Long term growth in low and middle income countries Benefits from Swiss tax regulation

Source: Kepler Cheuvreux

Table 56: Roche and Bayer Inequality Footprint

Company	Themes (positive or negative impact)	Materiality
Roche	• Though ranked 12 in Access To Medicines Index 2014 (10 in 2012), strength in equitable Pricing strategies and HIV/AIDS drugs • (+)Developing products to meet high unmet needs. Roche has several possibly safer, more efficacious oral hepatitis C medicines in its pipeline (vs. interferon-based regimens). It is also developing an antibiotic and is testing schizophrenia medicines in clinical trials. • (-)Tamiflu controversy related to clinical trials disclosure - lead to governments including UK stockpiling and potential excess government spend based on data • (-)Though a lobby policy exists further colour on actual spend and approach to trade agreements would be welcome • (+)Social Mobility: Strong flexible workplace policies including childcare but no disclosure on take up • (-)Some allegations of bribery from Eastern Europe to China	Potential growth markets via ATM and reputational enhancement Corruption litigation risk for sector remains high
Bayer	• Ranked 10 in Access to Medicines (9 in 2012) • (+)Strengths in Pricing • (+)Overall above average management and implementation of business ethics issues including lobbying • (-)Weakness of biodiversity issues, esp. neonics with negative agricultural impacts • (+)Social Mobility: Bayer has a solid reputation for talent management, with excellent internal training and HR working policy • (+)Reports on diversity strategy, increasing women in management from 21 to 28 % in last five years with target of 35% in 2020.	Potential growth markets via ATM and reputational enhancement Ongoing risks regarding neonics & biodiversity Corruption litigation risk for sector remains high Access to widest talent pool critical for Bayer – to leverage skilled workforce in diversified areas from Healthcare to Material & Crop Science

Source: Kepler Cheuvreux

Table 57: AstraZeneca Inequality Footprint

Company	Themes (positive or negative impact)	Materiality
AstraZeneca	• Ranked 15 in Access To Medicines Index 2014, 16th in 2012 • (+)Scores highest in capability including ability to use pharmacovigilance knowledge base in developing countries • (-)Poor performance on licensing	Potential growth markets via ATM & reputational enhancement
	• (+)Recently launched equitable pricing scheme , 18% increase in reach of affordability programme from 2013 to 2014 • (+)AZN claims 100% of its countries of believe compensation package meets ILO definition of living wage, however supply chain not incorporated. 65% countries have a local definition of living wage, which AZN claims to surpass. Greater disclosure on the details of these standards is welcome • (+)Some disclosure on tax policy including use of tax havens and tax credit R&D amounts	Base of the Pyramid project targets low income groups in developing markets
	• Though a lobby policy exists further colour on actual spend and approach to trade agreements would be welcome • (+)Social Mobility: Like peers a solid reputation for talent management, with excellent internal training and HR working policy. Areas for Improvement identified through Employee Survey • (+)Young Health Programme - prevention of common non communicable diseases Type 2 diabetes, cancer, heart & respiratory disease, AZN claims 1.2m reached since 2010, with some focus on marginalised youth	Minor UK press attention regarding low domestic tax , company has responded that official incentives used
	• (-)Some investors requesting better linkage of CEO variable pay to 2023 long term goals, lowering of EPS threshold for variable pay an issue for some shareholders	Alignment of CEO Pay with shareholder value

Source: Kepler Cheuvreux

Extractives

The "resource curse" is driven by elements of income and social inequality. Oil and mineral wealth, when poorly distributed, have a disruptive social and environmental effect on local communities. The sector is prone to extremes of wealth redistribution in already poorer regions, particularly towards local elites and officials (sometimes with the aid of corrupt payments).

The bar is high for extractive firms operating in regions of high inequality. While the challenges they face are not necessarily of their own making, the pressure on large global listed companies to increase standards of governance and accountability related to wealth redistribution has never been greater. Most extraction regions have high levels of both poverty and therefore inequality (with the presence of oil or mineral wealth tending to create a small governing elite). We summarise some of the key areas below:

Anti-corruption: Without adequate systems to ensure this risk is minimised, firms contribute to a greater risk to shareholders of global litigation, increased costs of operations, regional instability and an overall loss of license to operate. The impacts are felt locally through the continued and potentially increased denial of funds allocated to public services, especially those most beneficial to populations encountering poverty. The dynamics of corruption in the extractives sector are all the more important due to the huge amounts of wealth creation entailed by the elite few managing the process of this wealth creation.

Taxation and country reporting: As an area of significant long-term reform globally, there is a threat to shareholders of litigation, ad hoc demands for payments, loss of licence to operate, and reputational damage with local communities, employees and government decision makers as a result of aggressive tax avoidance techniques. Any pick-up in commodity prices may well increase such a risk. To minimise these long-term shareholder risks, more disclosure on tax payments are required, particularly through country reporting (mandated in the EU) and approaches to minimise "profit-shifting" as a whole. We examine these issues for the sector in detail in our report *Tax me if you can: game over*.

Human rights risks: Risks to fundamental rights can be inherited from decades of national and local government mismanagement before the firm enters the region or can be the unfortunate consequence of its presence (or both). Extractives companies are subject to the presence of inequality through the inability of local populations to be adequately represented by local justice systems, with increased vulnerability to forcible displacement, violence at the hands of local police seen to be protecting the interests of government officials and the extractive companies themselves.

Environmental impacts: We look in more detail at these compacts in a separate section, but the extractive sector more than any other brings with it risks related to impact on land, water and air. Any spills related to operational activity have a high negative result on the poorest populations, least able to cope with the costs of clean-up, displacement and loss of livelihood that is usually most dependant on land (farming) and water (fishing). Environmental accidents, such as those involving Exxon (Alaska), BP (Gulf of Mexico) and Shell (Nigeria), have tended to exacerbate levels of inequality in regions affected due to these effects.

Local Communities: While large listed companies in the sector are still exposed to significantly higher levels of accountability than national oil companies, tensions remain that the levels of influence exercised by large listed extractive companies and the disparity between the pay and conditions between foreign executives running the businesses and local hires is destructive, as the majority of the benefits from extraction flow to those stakeholders instead of the majority of the local populations. NGOs have targeted oil majors in using aggressive tax practices which can have highest impacts on the local communities through the potentially reduced infrastructure spend available to them through state budgets.

Inequality a prolonged driver for Petrobras corruption case

An extreme illustration of how the dynamics of inequality can affect shareholders in large listed companies concerns Brazilian oil giant Petrobras. Accusations of bribes right up to head of state level in Brazil, a systematic appropriation of assets through illicit payments involving middle management have resulted in significant fallout not just for Petrobras shareholders, but also numerous European listed companies such as SBM Offshore to date, with outstanding allegations of corruption remaining against other services firms. Petrobras wrote off USD2.1bn in 2015 specifically due to alleged corruption.

Political links between the company and the government had been long established and accounted for significant "corporate capture" risks. Ultimately, when large public protests against Petrobras and the government's involvement took place, one specific charge is that the democratic process itself had been undermined by the company, its officials and its lack of anti-corruption management. In 2015, an open-ended strike reduced the company's production by over 10%.

While tax receipts are already likely to have been sub-optimal due to corruption, resulting tax collection following the scandal both at state and local level (royalties) in Brazil was decreased due to drops in production. Specific concerns of the strikers in the Brazil oil workers' union (FUP) were related to the perceived disproportionate negative impacts on them, including ongoing plans for an asset sale of USD15bn and a 30% reduction in the 2016 budget resulting from the crisis.

South Africa miners, union wage negotiations and police intervention

Inequality's direct impacts on business have often been seen historically through industrial action (strikes will often refer to claims of excess executive pay). The mining sectors such as those in South Africa have seen this case taken to an extreme where issues related to social cohesion, poor union relations, the role of police in enforcing corporate positions and wage negotiations and working conditions have become fatally intertwined.

The material impacts which stem from factors of social cohesion or "employee-employer trust" are seen at their worst during rioting, protests and general discontent, detracting from output, damaging brand internationally, relations with state authorities, affecting recruitment, retention and overall productivity and exposing a company to compensation liabilities. Lonmin's share price dropped by 5% in August 2012 amid press reports of 36 deaths by strikers, and suffered prolonged volatility and overhang as a result. Pay disparities between executives and miners were and are regularly cited by the South African unions, media and protesting workers.

Table 51: Extractives –Inequality Footprint themes & investor impacts

Key issues	Business area	Impacts on inequality	Investor materiality	Company good practice	Controvesies
Fossil fuel impacts on poorer populations	Business model , core activity in fossil fuels	Extreme weather events and rise in sea levels disproportionately impacts poorer populations			
Tax avoidance	Avoidance at aggressive end of minimisation	Tax, fundamental instrument of distribution. In developing markets infrastructure and institution building suffers strong negative affect through corporate tax avoidance	Increased litigation increased regulatory tightening in the long term, stronger brand impact and negative media coverage of controversies. Pharma business model dependent on education systems (incl. University partnerships for trials), technology, logistics and transport systems funded by tax revenue	Total SA Though some have made statements on the non-use of tax havens, and give some detail on use of tax credits best practice difficult to identify overall due to lack of global disclosure, and country reporting	Glencore Zambia
Corruption	Systematic bribe payments	Resource Curse impact on poorer populations, stalled infrastructure development, diversion of public funds to hands of selected bribe recipients - .i.e. some negative redistribution of wealth can result from funds diverted from poorer populations paying increased prices to richer populations, facilitation payments discourage government from strengthening institutions and act as a systematic "private tax"	Corruption increases costs to business and reduces efficiency of capital allocation, Increased litigation, increased regulatory tightening in the long term, stronger brand impact and negative media coverage of controversies. UK Bribery Act specifically outlaws facilitation payments abroad for business with any connection to UK	BP Plc A highly exposed sector despite visible efforts from all players to implement good practice in risky regions.	Total, ENI, Glencore
Lobbying	Regulatory affairs influence through both in house, external and trade association positions. Key areas of lobbying for extractives sector are relate to climate change regulation, fuel subsidies, R&D, trade agreements, access to new markets (Iran), transparency regulation (Country reporting via Dodd Frank 1504)	Large pharma may have disproportionate ability to influence regulation at the expense of general population and other stakeholders	Regulation remains weak globally, but some long term efforts at tightening are being launched alongside increased reputational impact from willingness of media to treat subject	No best practice though in isolated areas some policy is better disclosed	RD Shell's advocacy positions on US country reporting , Exxon « climate denial » advocacy
Anti-competitive practices	Closely tied to ATM issue. Balance between recouping R&D spend and excessive "rent seeking" use of patent law and private agreements between firms (to restrict competition through pay for delay deals)	Especially where lower priced or generic competitors are concerned impact on population and government healthcare spend is negative where lower priced competition kept off market	Some regulatory tightening, and evidence of increased litigation	More disclosure welcome from majors	Repsol and four competitors petrol retail price coordination penalty total EUR32m in 2015, Spain
Social mobility & application to local content	Training, Diversity, Non Discrimination, Family friendly policies	Talented Employees able to "climb ladder" , opportunity increases overall skillset and possibility to climb out of minimum or low wage jobs. Maximised inclusion through diversity in recruitment . Treatment of workers in emerging markets local production sites.	Skilled talent drives profitability in the sector. Increased productivity, reduced turnover and associated costs	All large firms in sector disclose good policy on training and compete for talent based on brand and benefits packages	-
Pollution impacts	Environmental Recovery Obligations, H&S spend	Poorer local communities that are often least resilient are most impacted. Long term use of land, water and air potentially damage earnings potential	Litigation, industrial action, reduced license to operate and resulting regulatory tightening from the state aimed at sector		Shell, Nigeria BP Gulf of Mexico

Source: Kepler Cheuvreux

Table 52: Glencore Inequality Footprint

Key comments	Financial materiality
Income inequality	
• Board power concentrated with CEO Founder Glasenberg (8.4% holding)	Corporate Governance: Countervailing power
• Generous trader and senior management pay structures in sector	
• Controversies over mining pay and staff conditions via NGOs and Unions	Negative impacts on output
Social mobility	
• Challenge of disparity between strong internal recruitment and retention for office , management and executive roles vs pay and conditions for mining operations and local staff	While pay and conditions for internal staff rate highly risks to operations remain from supply disruption as a result of labour disputes on the ground remain
Production & supply chain	
• Despite continuous improvements since IPO and increased social investment Glencore still a laggard • Risks of artisanal mining present extreme challenges related to all inequality issues from pay, safety, conflict minerals, access to healthcare, local policing, corruption and poverty alleviation • Mine Closures: i.e. Mopani – impacts on local populations, Glencore has committed to ongoing participation in health, education, enterprise development, water and sanitation programs in the area • Fossil fuel exposure: social impacts of climate change on least resilient (poorer) global populations	Closures, stoppages, effects on production rates of poor worker relations, health and safety, poor/ damaged local infrastructure
Product impact	
• Environmental damage via climate change, local pollution impacts is high from direct mining activity and indirectly from trading. • Stranded assets risk from coal operations (Rolleston - Australia) • Significant allegations and 4 OECD complaints regarding air and water pollution impacts in Zambia in local communities	Exposure to stranded assets
Approach to labour	
• Union relationships poor in both developed and emerging markets; Unions integral in Safety process, continued strike action material risk for company (e.g. Zambia)	Production stoppages, potential union campaigns affecting license to operate
Business ethics	
• Advocacy disclosure now includes list of lobbying organisations but pivotal position of firms like Glencore in tax advocacy Zambia where mining accounts for 30% of govt. revenue	Rising business ethics regulatory risk and heightened potential reputational sensitivity given prior issues
• 40% reduction in fatalities, improved clarity on HSEC process with board commitment, target of zero new occupational diseases from current exposure not achieved • Signatory to UN Voluntary Principles on Security and Human Rights • Anti-Corruption Policy Implementation: Greater geographical detail on training and local risk assessments would be welcome • Although numerous CSR policies are disclosed more data on implementation, integration into risk management, staff training ; audits and global reach welcome • Opaque group structure and lack of country reporting heightens difficulty for investors in assessing the risks related to inequality in regions of operation • Footprint and vertical integration of Group post-merger gives outsized influence on governments and markets	Tax disputes (i.e. Zambia) resulting in temporary mine closures. Pivotal position of firms like Glencore in Zambia where mining accounts for 30% of government revenue Corruption investigations and allegations resulting in penalties (i.e. Grain unit EUR500,000 fine, EU, 2012) Increased regulatory risk from growing list of transparency laws, not least country reporting obligation in EU Anti-Trust threats, higher risks of anti-competitive behaviour

Source: Kepler Cheuvreux

Table 53: RD Shell Inequality Footprint

Key comments	Financial materiality
Income inequality • CEO pay 2015 EUR5.8m (from EUR24m in 2014)	CEO pay alignment with shareholder value
Social mobility (93,000 employees FY 2015, 94,000 in FY 2014): • Solid track record for human capital and training for internal staff • Leverages sought after graduate programmes and some youth targeted	While pay and conditions for internal staff rate highly risks to operations remain from supply disruption as a result of labour disputes on the ground remain
Production & supply chain • Local communities from which workforce and resources are drawn witness all inequality issues from pay, safety, conflict minerals, access to healthcare, local policing, corruption and poverty alleviation	Suppliers largest cost USD311.6bn 2014 Income inequality / poverty a driver for oil pipeline thefts (estimated cost to industry 1bn USD+ per month) Closures, stoppages, effects on production rates of poor worker relations, health and safety, poor/ damaged local infrastructure
Product impact • Fossil fuel dependency: social impacts of climate change on least resilient (poorer) global populations	Exposure to stranded assets
Business ethics • Shell scores poorly on lobbying in a TI UK Index with an E score (scale A-F) but average band D overall for advocacy policies • Potential footprint of Group (with BG) gives potentially outsized influence on governments and markets, including increased risk from advocacy • Signatory to UN Voluntary Principles on Security and Human Rights • Anti-Corruption Policy Implementation: Good policy but at least one major legacy allegation remains in Nigeria • Although numerous CSR policies are disclosed more data on implementation, integration into risk management, staff training ; audits and global reach welcome • Nigeria oil spill – UK courts agreed to hear case in 2016, (though a similar US case failed) • Opaque group structure and lack of country reporting heightens difficulty for investors in assessing the risks related to inequality in regions of operation • Vocal in arguments against project reporting legislation as part of country by country disclosure (US Dodd Frank 1504)	Growth of advocacy risk for extractives sector License to operate concerns esp. Nigeria local communities Production stoppages, potential union campaigns affecting license to operate Corruption investigations and allegations (OPL 145 Nigeria) Dutch and Italian regulators investigating Risk of extended liability outside country of origin of oil spill Tax disputes (Shell won a transfer pricing case in India with potential liability of USD3bn+ in 2014)

Source: Kepler Cheuvreux

Table 54: BP Inequality Footprint

Key comments	Financial materiality
<u>Income inequality</u>	
• CEO pay for 2015 USD19.6m (increase due to UK pension) versus USD16.4 m in 2014 despite worst annual loss	CEO pay alignment with shareholder value
<u>Social mobility (82,600 employees FY 2015, 84,500 in FY 2014):</u>	
• Solid track record for human capital/ internal skills training • Leverages sought after graduate programmes and internships (670 graduates 2014 with 50% outside the UK and the US) • Objective of 25% representation of female senior managers by 2020	While pay and conditions for internal staff rate highly risks to operations remain from supply disruption as a result of labour disputes on the ground remain
<u>Production & supply chain</u>	
• Local communities from which workforce and resources are drawn witness all inequality issues from pay, safety, pollution, access to healthcare, local policing, corruption and poverty alleviation • Some human rights aspects included in supplier pre-qualification and social compliance and performance audits i.e. Georgia & Oman	Suppliers are largest cost : USD311.6bn 2014 Closures, stoppages, effects on production rates of poor worker relations, health and safety, poor/ damaged local infrastructure
<u>Product impact</u>	
• High visibility impacts of Deepwater Horizon Spill on poorer segments of local communities • Fossil fuel dependency: social impacts of climate change on least resilient (poorer) global populations	Total cost post Macondo USD70bn Exposure to stranded assets
<u>Business ethics</u>	
• BP scores poorly on lobbying and reporting in a TI UK Index with E scores in these areas (scale A-F) but average band D overall for advocacy policies • Signatory to UN Voluntary Principles on Security and Human Rights (Iraq oil protection force and Angola two regions of focus) • Anti-Corruption Policy Implementation: Good policy and implementation overall including specific partner audits within risk management framework • "Economic Value Generated" to each stakeholder group reported included with narrative description of key item, (including share repurchase) for investors. • Community spend/ PBT for 2014 : 1.72% • Good practice in reporting dismissals as a result of non-conformance with Code of Conduct (157 in 2014) with anonymous whistle blowing system globally	Rising Business Ethics regulatory risk and heightened potential reputational sensitivity given prior issues Growth of advocacy risk for extractives sector

Source: Kepler Cheuvreux

Table 55: Total SA Inequality Footprint

Key comments	Financial materiality
<u>Income inequality</u>	
• 42% of employees globally received reserved shares in 2014 (employees held 4.6% of share capital at year-end)	Alignment of pay practices to increase employee participation
<u>Social mobility (96,019 employees 2015, 100,307 in FY2014)</u>	
• Significant brand value leveraged in recruitment (especially France) • Leverages sought after graduate programmes and internships (670 graduates 2014 with 50% outside the UK and the US) • Objective of 25% representation of female senior managers by 2020 (FY2014 17.6%) And 40% non-French senior executives by 2020 (FY2014 27.2%) Reporting on flexible work practices commenced	Employee engagement as driver of productivity
<u>Production & supply chain</u>	
• Local communities from which workforce and resources are drawn witness all inequality issues from pay, safety, pollution, access to healthcare, local policing, corruption and poverty alleviation	Drivers of reputational risk limiting licence to operate and potential production stoppages
<u>Product impact</u>	
• Higher Solar exposure vs peers (with Africa focus)	Solar still limited in product mix Exposure to stranded assets
<u>Approach to labour</u>	
• First global union agreement signed 2015, with raised minimum labour standards	Production stoppages, potential union campaigns affecting license to operate
<u>Business ethics</u>	
• Limited disclosure on lobbying practices • Disclosure in 2015 of all consolidated entities was a positive with policy to avoid new entities in tax havens and withdraw from nine out of nineteen affiliates • Signatory to UN Voluntary Principles on Security and Human Rights • Anti-Corruption Policy Implementation: Good progress in continued policy implementation since 2013 US settlement but high risk exposure remains • VA Distribution reporting included ; tax figure of USD15bn includes non-corporate income tax in total amount (accounting for 40%+ of total) • Good practice in reporting dismissals as a result of non-conformance with Code of Conduct (157 in 2014) with anonymous whistle blowing system globally • Higher community spend versus peers 4.74% in 2014	Rising Business Ethics regulatory risk and heightened potential reputational sensitivity given prior issues Growth of advocacy risk for extractives sector Some controversies on low tax paid in France however global group rate in 2014 reached 55.4% for 2012-14 average US Settlement USD398m in 2013 for Iran related corruption allegations

Source: Kepler Cheuvreux

Capital goods

Capital goods as a large diverse sector have key impacts on inequality reduction via environmental profile (facilitating emissions reduction globally), supply chain footprint (including ability to influence labour practices in low wage segments) and anti-corruption practices (reducing economic fallout on consumers from bribery and anti-competitive practices). Within manufacturing, human capital leveraged to maximise access to youth employment and skills training is also a driver of long-term social mobility.

Table 56: Capital goods: Inequality Footprint and materiality grid

Drivers	Impacts	Investor materiality	Good practice
Clean technologies	Cap goods sector instrumental in innovation for clean technologies - beneficiaries of such technologies will include poorest populations in area of climate change as effects are globalised. Specific technologies related to water, air and land pollution will often depend upon more local targeted utilisation	A growing market accelerated by regulatory tightening on environmental standards and emissions	See Green Impact Universe in Appendix
Emerging-market supply chains	Labour force in certain emerging markets remains particularly vulnerable to ill effects of inequality which translate into poor pay, health and safety and working condition levels	Supply chain disruption, reputational impacts from controversies	Phillips
Employee skills development	Human capital central to skills intensive industry particularly in areas of new technologies	Positive productivity and innovation impacts of Employee skillsets and accompanying worker satisfaction	ABB
Youth hiring & diversity	Youth hiring shown to have significant impact on lifelong earning potential, particularly if within positions accompanied by skills development. Racial and gender inequalities (which can be significant in the overall make up of social and income inequalities) are positively impacted by more targeted and equitable hiring.	Particularly in areas where competition for employees is strong companies drawing from widest talent pool benefit	Siemens

Source: Kepler Cheuvreux

Supply chain labour standards, pay and conditions

Where production sites are based in developing countries labour and safety standards are critical, controversies with reputational and litigation outcomes and potential operational disruption are risks where labour disputes or negative effects on employees arise. Large numbers of low-paid, precarious work contracts, extended working hours, and poor conditions overall are a clear negative in terms of inequality, even where job creation is a positive.

Facilitating the energy transition

Capital goods companies are the key sector for facilitators of energy efficiency, low emissions and environmental clean ups. Our Green Impact universe identifies best picks and we analyse the overall framework of inequality, environmental impacts and climate change in Chapter 4. Energy transition solutions are pivotal, as the impacts of climate change through extreme weather events affect the most economically disadvantaged populations. Such poorer populations are also those who are most vulnerable globally, despite the fact that the lowest-income populations in emerging countries have the lowest per capita emissions and therefore provide the least contribution to the impacts of climate change.

Redistributive downside from risk of corrupt practices

Misconduct related to acts of corruption is a key risk especially related to high-value public-sector contracts (for infrastructure) and price fixing agreements. For investors, the risk is one of a multitude of impacts from litigation, contract and licence suspensions, M&A disruptions, staff loss, credit downgrades, stymied asset sales, and larger compliance costs where global reform is demanded as part of settlements.

Inequality is exacerbated through the illicit transfer of large amounts funds possibly intended for public coffers into the hands of a small group of gatekeepers of such contracts. The extremes of wealth are extended through the denial of use of funds for general populations where the poorest will be the largest net beneficiaries (schooling, health, transport).

At the other end of the spectrum, government officials using the receipts will often direct the monies to jurisdictions that promote banking secrecy, or properties abroad, resulting in the double denial of the potential services resulting from the funds and also the redirection abroad where all effects of domestic spend are also negated. Social cohesion suffers too, and the overall license to operate of the firm and even potentially innocent competitors is downgraded.

Table 57: Siemens Inequality Footprint

Key comments	Financial materiality
Social mobility: (348,000 employees FY2015) • Apprenticeships include 10% allocation to disadvantaged groups • High quality internal engineering and management training, university partnerships • 90,320 jobs cut since 2008, 2015 announcement 11,600 headcount loss, negotiated with labour reps • Dominance of skilled and semi-skilled in workforce means talent attraction and retention critical with widest pool of potential. Large proportion of workers to retire in five years (15%) also means greater focus on youth recruitment and training beneficial.	Need for skilled labour, internal training and career progression enables social mobility a clear contributor to leading edge
Supply chain • Supply Chain at 90,000 suppliers across 160 countries a major challenge but EU Reach, Timber and Conflict Minerals already implemented, so Siemens should have experience of this. • Improvements in internal production environmental processes apparently • Lack of information on large supply chain wage policy	Supplier quality, integration of compliance on supplier due diligence facilitates risk management Potential Living Wage benefits for productivity
Product impact • Strategy of « electrification, automation and digitalisation » is intrinsically a contributor to reduction of global environmental inequalities: Solid Exposure to Environmental Impact technologies contributing to a global and local reduction in land, air, water pollution and numerous emission types. • Contributor to less carbon-intensive transport system and infrastructure • EUR6.8bn spree of fossil fuel extraction acquisitions despite plan.	Environmental technologies growth market exposure 43% Sales from green impact products and services Indirect exposure to stranded assets risk
Approach to labour • Union relations during restructuring programme strained, and 43000+ announced job cuts since mid-2013 • Controversies over US labour relations. Key German domestic walkouts related to wage disputes affected Siemens in 2012 alongside 80 other companies with IG Metall union members	Production risk from walkouts and stoppages
Business ethics • Crucial overhaul of anti-corruption systems has led to best practice in numerous areas considering high residual risk of sector, government exposure and emerging markets • Eff Tax rate in line, no evidence of aggressive use of tax havens • Ongoing controversies on Anti-competitive Behaviour, significant litigation list in Brazil	Rising business ethics regulatory risk and heightened potential reputational sensitivity given prior corruption scandal Aggressive regulatory environment remains since Siemens USD2bn global corruption penalties in 2008.

Source: Kepler Cheuvreux

Table 58: ABB Inequality Footprint

Key comments	Financial materiality
<u>Social mobility: (135,800 employees FY2015)</u> • Fewer job cuts than peers • Good level of Board and Executive Committee diversity • Multiple national level targeted initiatives on gender diversity and local hiring • Strong brand value visible in recruitment • Good disclosure of turnover with geo and gender breakdown (Overall 12% for Group in 2014)	Need for skilled labour, internal training and career progression enables social mobility a clear contributor to leading edge
<u>Supply chain</u> • Complex dispersed global supply chain (80,000 direct material suppliers) • Notable expansion of global supplier risk matrix including corrective actions for risk mitigation (152 in 2014) includes identifying root causes of key H&S, Environment, and Labour issues. 10 suppliers blocked in 2014 • Supplier Code of Conduct covers variety of equality drivers including adherence to minimum standards, working hours, harassment, equality of opportunity and freedom of engagement but more implementation data would be welcome. Explicit inclusion of sub supplier & subcontractor assessment is positive	Industrial action effects on supply chain Risk of Walkouts and stoppages
<u>Product impact</u> • Green Impact universe: Exposure via 1) Plant process selection; 2) Optimized process control; 3) More efficient equipment; and 4) Loss recovery and/or loss reductions	Environmental technologies growth market exposure 43% Sales from green impact products and services
<u>Business ethics</u> • Crucial overhaul of anti-corruption systems has led to best practice in multiple areas considering high residual risk of sector, government exposure and emerging markets • Eff Tax rate in line, no evidence of aggressive use of tax havens • Well-developed Conflict Minerals Policy & Implementation includes supplier training • Business Ethics policy is strong and shows some effectiveness in practice in avoiding new corruption investigations in recent years • Community Engagement measured with feedback from 70% countries on social spend	Capital goods sector features highly in corruption and price fixing litigation

Source: Kepler Cheuvreux

Table 59: Schneider Electric Inequality Footprint

Key comments	Financial materiality
Social Mobility (170,000 Employees)	
• CEO part of HeforShe Gender Diversity Initiative, Female representation in top 6% of company is 22% and a weaker area • Active volunteer programme with target of 40,000 employees in 2014	Need for skilled labour, internal training and career progression enables social mobility a clear contributor to leading edge
Executive remuneration	
• Exec Pay: 20% of the variable part of performance share attribution based on internal ESG barometer metric • 20% of executive incentive pay based on ESG criteria, personalised according to staff profile	Exec Pay alignment with performance
Supply chain	
• 14bn EUR supply chain spend in 2013 : more data on verification welcome	Industrial action effects on supply chain
Product impact	
• Variety of Green Impact Themes • Fuel Poverty: Variety of Small projects such as Myanmar, Nigeria & African solar off grid electrification, Partnership in Energy Access Ventures Fund to improve access to energy in Sub-Saharan Region and access to energy training	Environmental technologies growth market exposure 46% Sales in Green Impact Theme The largest contributors to energy efficiency sales are, in decreasing order, services, critical power, building automation systems and variable speed drives, Power equipment for wind & solar projects, Charging stations for electric vehicles
Business ethics	
• Provides a consistent balanced Stakeholder Value analysis • Has been active in Energy Transition advocacy • Above average for sector on business ethics performance	Aggressive regulatory environment remains in place

Source: Kepler Cheuvreux

Table 60: Alstom Inequality Footprint

Key comments	Financial materiality
Social mobility: (89459 employees 2014/15)	
• 50,000 employees covered by profit sharing scheme • Discloses numbers for temp workers (7535 8.4% vs in line with 7.6% at Schneider Electric) and long term absentees (1610) • 2108 Interns – greater disclosure on subsequent hiring welcome • Active university collaborations across western Europe and the US • Acknowledged that GE sale created "destabilising environment" from HR point of view	Productivity via Employee engagement Need for skilled labour, internal training and career progression enables social mobility a clear contributor to leading edge
Supply chain	
• Lack of information on large supply chain wage policy	Industrial action effects on supply chain
Product impact	
• Green Impact universe: Rail transport products, systems and services	Environmental technologies growth market exposure 100 % Exposure to Green Impact Theme
Business ethics	
• Recent corruption allegations have resulted in major settlements but the momentum is now positive in internal reform • Eff Tax rate in line, no evidence of aggressive use of tax havens • Lack of disclosure on Conflict Minerals Approach and supplier training	US Corruption penalty of USD772m in 2015 for bribes in developing markets, ongoing UK investigations and high geographical exposure Capital goods sector features highly in corruption and price fixing litigation

Source: Kepler Cheuvreux

Appendix

Investor engagement guide

Table 61: Investor engagement on social inequality

Area	Question	Context	Best practice KPIs
Wage inequality	Does the company take into account differential between median wage in a company and those of the highest paid in remuneration policy	Regulatory pressure already under way for CEO Wage ratio disclosure i.e. SEC, Minimum wage level rises instigated in certain countries (UK, Germany) and major employers in Food and Retail sectors (Walmart, McDonalds, H&M) with growing list of employers who support living wage	CEO wage median disclosed, living wage implemented for direct workers and indirect workers globally, gender pay disparity by income quartile
Approach to social mobility which maximises long term value and contributes to social equality	Does the company have a human capital approach that optimises employee engagement?	Productivity increases and recruitment and retention effectiveness from variety of policies	Employee turnover, % employees covered by collective bargaining contracts, No of employees using flexible working polices, training spend, breakdown of employee numbers by location and contract type/ Full Time & Part Time split, gender representation at global, management and board level of firm
Product access for relevant sectors	Is the company exposed to growth markets for essential services for underserved populations?	Examples include digital divide , access to medicines or bottom of the pyramid	Revenue and growth targets for specific markets
Business ethics : reporting channels available to disclose concerns	Does the company have a system that allows all stakeholders to report any concerns on business practice confidentially?	Internal reporting channels allow company to manage concerns in the best interest of shareholders and the company. In absence of functional internal channels for reporting whistleblowing to regulators/ media is the worst case scenario.	Disclosure on whether channel open to external stakeholders Anonymous, where legally viable Reporting on number of cases taken Broad reporting on responses / actions taken whistleblower reports

Source: Kepler Cheuvreux

Inequality Footprint Screening

Table 62: Inequality Footprint: risk exposure and ability to impact inequality

Company	Sector	Inequality risk exposure	Ability to impact inequality
Airbus Group	Aerospace & Defence	Medium	Medium
Safran Sa	Aerospace & Defence	Medium	Medium
Zodiac Aerospace	Aerospace & Defence	Medium	Medium
Daimler Ag	Automobiles & Parts	Medium	Medium
Volkswagen	Automobiles & Parts	Medium	Medium
Bmw	Automobiles & Parts	Medium	Medium
Continental Ag	Automobiles & Parts	Medium	Medium
Ubs Group Ag	Banks	High	High
Banco Santander	Banks	High	High
Barclays	Banks	High	High
Deutsche Bank	Banks	High	High
Bnp Paribas	Banks	High	High
Ing Groep Nv	Banks	Medium	Medium
Intesa Sanpaolo	Banks	High	High
Nordea Bank Ab	Banks	Medium	Medium
Hsbc	Banks	High	High
Credit Suisse	Banks	High	High
Ubs	Banks	High	High
Bbva	Banks	High	High
Danske Bank A/S	Banks	Low	Low
Svenska Handelsbanken	Banks	Low	Low
Societe Generale Sa	Banks	High	High
Anheuser-Busch	Beverages	Medium	Medium
Sabmiller Plc	Beverages	Medium	Medium
Diageo Plc	Beverages	Medium	Medium
Heineken Nv	Beverages	Medium	Medium
Siemens Ag-Reg	Capital Goods	High	High
Alstom	Capital Goods	High	High
Schneider Electr	Capital Goods	High	High
Abb Ltd-Reg	Capital Goods	High	High
Atlas Copco-A	Capital Goods	High	High
Basf	Chemicals	High	High
Syngenta	Chemicals	High	High
Umicore	Chemicals	Low	High
Vinci Sa	Construction & Materials	High	High
Lafargeholcim	Construction & Materials	High	High
Saint Gobain	Construction & Materials	High	High
Nestle	Food	High	High
Danone	Food	High	High
Unilever Nv-Cva	Food	High	High
Casino	Food Retail	High	High
Tesco Plc	Food Retail	High	High
Carrefour Sa	Food Retail	High	High
Delhaize Group	Food Retail	High	High
Metro Ag	Food Retail	High	High
Stora Enso	Forestry, paper and packaging	High	High
Upm-Kymmene Oyj	Forestry, paper and packaging	High	High
Inditex	General Retail	High	High
Hennes & Mauri-B	General Retail	High	High

Continued onn ext page

Inequality Footprint: risk exposure and ability to impact inequality... continued

Company	Sector	Inequality risk exposure	Ability to impact inequality
Zalando Se	General Retail	High	High
Adidas Ag	General Retail	High	High
Bollore	Holding companies	High	High
Reckitt Benckiser	Home & apparel	Medium	High
Henkel	Chemicals	High	High
Nn Group	Insurance	Low	Low
Aegon Nv	Insurance	Low	Low
Sap Se	IT software & services	Medium	Medium
L'oreal	Luxury goods & Cosmetics	High	Medium
Lvmh Moet Henne	Luxury goods & Cosmetics	High	Low
Vivendi	Media	Low	Low
Pearson Plc	Media	Low	High
Jc Decaux Sa	Media	Low	Low
Informa Plc	Media	Low	Medium
Arcelormittal	Metals & Mining	High	High
Glencore	Metals & Mining	High	High
Bp	Oil & Gas	High	High
Total Sa	Oil & Gas	High	High
Rd Shell	Oil & Gas	High	High
Eni	Oil & Gas	High	High
Statoil	Oil & Gas	High	High
Repsol	Oil & Gas	High	High
Gsk	Pharma	High	High
Novartis	Pharma	High	High
Novo Nordisk	Pharma	High	High
Astrazeneca	Pharma	High	High
Sanofi	Pharma	High	High
Roche	Pharma	High	High
Bayer	Pharma	High	High
Compass Group	Support Services	High	High
Adecco Sa-Reg	Support Services	High	High
Deutsche Telekom	Telecom services	Medium	High
Telefonica	Telecom services	High	High
Orange	Telecom services	Medium	High
Whitbread Plc	Travel & Leisure	High	High
Accor Sa	Travel & Leisure	High	High
Tui Ag-Di	Travel & Leisure	High	High
Intercontinental	Travel & Leisure	High	High
Engie	Utilities	Medium	High
Suez Environneme	Utilities	Medium	High
Iberdrola Sa	Utilities	Medium	High
Enel Spa	Utilities	Medium	High
Fortum Oyj	Utilities	Medium	High

Source: Kepler Cheuvreux

Green Impact Universe

Table 63: Green Impact Universe (Maintained by Samuel Mary)

Company	Sector	Country	Analyst	Main cluster	Main activities	Source: Exposure	Estimated business exposure	Unit
A2A	Utilities	Italy	Claudia Introvigne	Waste & Water Management	1) waste; 2) renewable energy generation	Business unit breakdown	61%	EBITDA
ABB	Capital goods	Switzerland	William Mackie	Energy efficiency	1) Plant process selection; 2) Optimized process control; 3) More efficient equipment; and 4) Loss recovery and/or loss reductions	Company estimates	50%	Sales
Acciona	Utilities	Spain	Jose Porta	Renewable Energy	Water (designs, builds and operates plants for drinking water and wastewater treatment, desalination and water reuse), Renewable energy generation and energy efficiency in buildings and construction	Business unit breakdown	87%	EBITDA
ACEA	Utilities	Italy	Claudia Introvigne	Waste & Water Management	Water management, waste and renewables	Business unit breakdown	50%	EBIT
Air Liquide	Chemicals	France	Martin Roediger	Eco-Products & Serv	Hydrogen to produce sulphur-free fuels, Oxygen injection in blast furnaces, Oxygen in electric arc furnace (EAF), Cogeneration, Industrial gas for Photovoltaic sales, Production of Biogas, CCS.	Business unit breakdown	28%	Sales
Aixtron	Semis	Germany	Bernd Laux	Energy efficiency	Development and production of equipment for the production of compound semiconductors (mainly LEDs)	Our estimates	80%	Sales
Alerion	Utilities	Italy	Claudia Introvigne	Renewable Energy	Wind energy production	Business unit breakdown	100%	Sales
Alstom	Capital goods	France	William Mackie	Alternative Energy & Transport	Rail transport products, systems and services.	Business unit breakdown	100%	Sales
Andritz	Capital goods	Austria	Thomas Neuhold, CFA	Renewable Energy	Electromechanical equipment for hydropower stations (particularly turbines and generators); plants for generating energy from biomass, e.g. biomass boilers for the pulp and paper industry or plants for drying and pelleting biomass; plants for production of liquid biofuel, such as biodiesel or bioethanol (second generation); plants for converting waste products into energy sources (waste-to-power)	Business unit breakdown	45%	Sales
Ansaldo STS	Capital goods	Italy	Enrico Coco	Alternative Energy & Transport	Rail and mass transport systems	Business unit breakdown	100%	Sales
Arcadis	Capital goods	Netherlands	Andre Mulder	Eco-Products & Serv	1) Water protection; 2) efficient systems for heating, cooling, airco, storage of heat ; 3) Environmental services	Our estimates	43%	Sales
Blue Solutions	Capital goods	France	Pierre Boucheny	Energy efficiency	Provider of Lithium-metal polymer batteries dedicated to energy storage applications	Business unit breakdown	100%	Sales
CAF	Capital goods	Spain	Inigo Egusquiza	Alternative Energy & Transport	Design, production, maintenance and supply of equipment for the railway industry	Business unit breakdown	100%	Sales
EDP Renovaveis	Utilities	Portugal	Jose Porta	Renewable Energy	Wind energy generation	Business unit breakdown	100%	EBITDA

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Green Impact Universe… continued

Company	Sector	Country	Analyst	Main cluster	Main activities	Source: Exposure	Estimated business exposure	Unit
Ence	Paper	Spain	Javier Campos Clavero	Biomass Resources	Production of renewable energy using forest biomass.	Business unit breakdown	25%	Sales
ENEL Green Power	Utilities	Italy	Claudia Introvigne	Renewable Energy	Wind, hydroelectric, geothermal, solar, biomass	Business unit breakdown	100%	Sales
Enel	Utilities	Italy	Claudia Introvigne	Renewable Energy	Wind, hydroelectric, geothermal, solar, biomass	Our estimates	12%	EBITDA
ERG	Utilities	Italy	Claudia Introvigne	Renewable Energy	Wind generation	Business unit breakdown	90%	EBIT
Eurofins Scientific SE	Support services	France	David Cerdan	Eco-Products & Serv	Environmental testing: Testing of water, air, soil, waste and other products to assess their quality and impact on health and the environment. Eurofins is also exposed to Food & feed testing and testing for pharma/biotech	Our estimates	20%	Sales
Falck Renewables	Utilities	Italy	Claudia Introvigne	Renewable Energy	Wind energy production, waste/biomass	Business unit breakdown	100%	Sales
FCC	Construction & materials	Spain	Joaquin Ferrer, CFA	Waste & Water Management	1) Environmental services 2) Water distribution and treatment	Business unit breakdown	53%	Sales
Gamesa	Capital goods	Spain	Jose Porta	Renewable Energy	Wind energy equipment and production	Business unit breakdown	100%	Sales
Geberit AG	Construction & materials	Switzerland	Martin Flueckiger	Waste & Water Management	Products that enhance water savings, water efficiencies and thus water management (water saving flushing systems, optimised waste water drainage systems, etc.).	Our estimates	90%	Sales
Groupe Eurotunnel S.A.	Transport	France	David Cerdan	Alternative Energy & Transport	Operates the fixed link between Great Britain and Europe.	Business unit breakdown	100%	Sales
Hera S.p.A.	Utilities	Italy	Claudia Introvigne	Waste & Water Management	Waste: operational environmental services (waste collection, street sweeping and cleaning) and waste treatment (recycling and disposal), waste to energy Water: Hera is active in the collection, treatment, distribution, sewerage and purification.	Business unit breakdown	52%	EBIT
Iberdrola	Utilities	Spain	Jose Porta	Renewable Energy	Wind energy equipment, Wind energy generation, Hydro generation	Business unit breakdown	13%	EBIT
IREN	Hydro	Italy	Claudia Introvigne	Renewable Energy	Water, waste and renewables		40%	EBIT
Legrand	Capital goods	France	William Mackie	Energy efficiency	1) Lighting, heating and plant managements; 2) Analysis, measurement and monitoring of electrical equipment. The company sustainable product range definition covers: affordable ranges of switches, sockets and circuit breakers to suit every budget, solutions limiting power outages and optimizing energy efficiency, home systems enabling people to have a better life at home for longer	Company estilmates	54%	Sales

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Green Impact Universe... continued

Company	Sector	Country	Analyst	Main cluster	Main activities	Source: Exposure	Estimated business exposure	Unit
Lenzing				Eco-Products & Serv	Only producer worldwide that has the technological capability to make all three generations of man-made cellulose fibres (MMCF), eg viscose, Modal and Tencel (lyocell), which can be found in numerous textile (eg. apparel, home textiles) and nonwoven (female hygiene products, baby/disinfecting wipes) applications. Lenzing benefits from mounting environmental concerns over cotton production and the shift away from synthetic fibres.	Our estimates	100%	Sales
Linde	Chemicals	Germany	Martin Roediger	Eco-Products & Serv	1) Gas-to-liquid. 2) Enhanced Oil Recovery (EOR) & Enhanced Gas Recovery (EGR): energy efficiency 3) Cleaner fuels & clean coal & clean gas	Our estimates	45%	Sales
MVV Energie	Utilities	Germany	Ingo Becker, CFA	Renewable Energy	Wind power		>39%	Electricity generation
Nordex	Capital goods	Germany	Douglas Lindahl	Renewable Energy	Wind turbines equipment		100%	Sales
Novozymes	Pharma & biotech	Denmark	Richard Koch	Biomass Resources	Industrial enzymes. primarily the bioenergy enzymes business	Our estimates: all sales except pharma, technical, food&bev. (but primarily BioEnergy business (16%))	67%	Sales
Oerlikon	Capital goods	Switzerland	Hans-Joachim Heimbuerger	Energy efficiency	1) automotive sector (fuel efficiency), increased lifespan of materials; 2) improved energy efficiency in textiles machines; 3) Wind turbines as part of Drive Systems	Our estimates	50%	Sales
Osram Light	Capital goods	Germany	Peter Olofsen	Energy efficiency	Products, systems, solutions and services with the greatest potential for energy savings. Mainly LED	Our estimates	70%	Sales
Pfeiffer Vacuum Technology	Capital goods	Germany	Craig Abbott	Energy efficiency	Develop, manufacture and market components and systems for vacuum generation, measurement and analysis	Business unit breakdown	100%	Sales
Philips	Capital goods	Netherlands	Peter Olofsen	Energy efficiency	Lamps with lower energy consumption including LED, compact fluorescent	Our estimates	25%	Sales
Saeta Yield	Utilities	Spain	Jose Porta	Renewable Energy	Wind generation	Our estimates	100%	Sales
Saint-Gobain	Construction & materials	France	Josep Pujal	Energy efficiency	In building insulation the main products are glass wool and flat glass. To a small extent : distribution and exterior solutions.	Company estimates	20%	Sales
Schneider Electric	Capital goods	France	William Mackie	Energy efficiency	The largest contributors to energy efficiency sales are, in decreasing order, services, critical power, building automation systems and variable speed drives. Power equipment for wind & solar projects. Charging stations for electric vehicles	Business unit breakdown	46%	Sales
Séché Environnement	Utilities	France	Julie Arav	Waste & Water Management	Séché Environnement is a pure player in the waste activities.	Business unit breakdown	100%	Sales
Siemens AG	Capital goods	Germany	William Mackie	Energy efficiency	Energy efficiency as part of Infrastructure & cities BU. Rail solutions as part of its Infrastructure & cities BU. Wind equipment.	Company estimates	43%	Sales

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Green Impact Universe... continued

Company	Sector	Country	Analyst	Main cluster	Main activities	Source: Exposure	Estimated business exposure	Unit
Suez Environnement S.A.	Utilities	France	Julie Arav	Waste & Water Management	Water distribution and treatment, Desalination, Waste management and recycling	Our estimates	100%	Sales
Talgo	Capital goods	Spain	Javier Campos Clavero	Alternative Energy & Transport	Pure-play and a leader in the VHS (very high speed) and HS (high speed) train industry	Business unit breakdown	100%	Sales
Umicore	Chemicals	Belgium	Peter Olofsen	Eco-Products & Serv	1) Recycling treats complex waste streams containing precious and other non-ferrous metals. 2) Automotive catalysts	Business unit breakdown	57%	Sales
Veolia Environnement	Utilities	France	Julie Arav	Waste & Water Management	Offers all services in waste management: from collection to landfill, including recycling, incineration and WTE. The group also manages water at every stage.	Our estimates	>80%	Sales
Verbund	Utilities	Austria	Ingo Becker, CFA	Renewable Energy	Hydropower generator	Business unit breakdown	94%	Electricity generation
Vestas	Capital goods	Denmark	Douglas Lindahl	Renewable Energy	Wind turbines equipment		100%	Sales
Vossloh	Capital goods	Germany	Craig Abbott	Alternative Energy & Transport	1) Rail infrastructure 2) Motive Power & Components	Business unit breakdown	100%	Sales
Wacker Chemie	Chemicals	Germany	Martin Jungfleisch	Renewable Energy	Wacker's Polysilicon (material that goes in silicon based solar panels). Specialty chemicals to the solar sector such as coatings for solar panels and various energy efficient buildings (like coatings, paints, polymer modified insulation systems etc.).	Our estimates	30%	
Wienerberger AG	Construction & materials	Austria	Stephan Trubrich, CFA	Energy efficiency	Wienerberger's innovative products and system solutions for bricks (clay blocks, roof tiles, facing bricks) help to reduce energy costs and CO2 emissions	Our estimates	25%	Sales
Zehnder Group	Construction & materials	Switzerland	Martin Flueckiger	Energy efficiency	Energy-efficient products and system solutions for a comfortable and healthy indoor climate.	Our estimates	95%	Sales
Zumtobel	Construction & materials	Austria	Stephan Trubrich, CFA	Energy efficiency	Professional lighting solutions, luminaires, lighting management and lighting components for indoor and outdoor application	Our estimates	50%	Sales

Source: Kepler Cheuvreux

Research ratings and important disclosures

Disclosure checklist - Potential conflict of interests

Stock	ISIN	Disclosure (See Below)	Currency	Price
A2A	IT0001233417	nothing to disclose	EUR	1.13
AB InBev	BE0003793107	nothing to disclose	EUR	109.00
ABB	CH0012221716	nothing to disclose	CHF	18.38
Acciona	ES0125220311	nothing to disclose	EUR	65.47
Accor	FR0000120404	nothing to disclose	EUR	36.40
ACEA	IT0001207098	nothing to disclose	EUR	13.35
Adecco	CH0012138605	nothing to disclose	CHF	61.90
Adidas Group	DE000A1EWWW0	nothing to disclose	EUR	102.75
Aegon	NL0000303709	nothing to disclose	EUR	4.61
Air Liquide	FR0000120073	nothing to disclose	EUR	94.38
Airbus Group	NL0000235190	15, 17, 19	EUR	56.43
Aixtron	DE000A0WMPJ6	nothing to disclose	EUR	4.19
Alerion	IT0004720733	nothing to disclose	EUR	2.26
Alstom	FR0010220475	nothing to disclose	EUR	21.33
Andritz	AT0000730007	nothing to disclose	EUR	46.32
Ansaldo STS	IT0003977540	nothing to disclose	EUR	10.40
Apple	US0378331005	nothing to disclose	USD	109.81
Arcadis	NL0006237562	nothing to disclose	EUR	15.39
ArcelorMittal	LU0323134006	15, 17, 19	EUR	3.98
Atlas Copco	SE0006886750	nothing to disclose	SEK	199.00
BASF	DE000BASF111	nothing to disclose	EUR	63.04
Bayer	DE000BAY0017	14, 16, 18	EUR	100.00
BBVA	ES0113211835	nothing to disclose	EUR	5.50
Blue Solutions	FR0011592104	15, 17, 19	EUR	14.35
BMW	DE0005190003	nothing to disclose	EUR	74.63
BNP Paribas	FR0000131104	nothing to disclose	EUR	42.95
Bolloré	FR0000039299	nothing to disclose	EUR	3.33
BP	GB0007980591	nothing to disclose	GBP	337.45
CAF	ES0121975017	nothing to disclose	EUR	272.40
Carrefour	FR0000120172	nothing to disclose	EUR	23.28
Casino	FR0000125585	nothing to disclose	EUR	49.05
Compass	GB00BLNN3L44	nothing to disclose	GBP	1,246.00
Continental	DE0005439004	14, 16, 18	EUR	182.70
Daimler	DE0007100000	nothing to disclose	EUR	63.10
Danone	FR0000120644	nothing to disclose	EUR	61.23
Danske Bank	DK0010274414	nothing to disclose	DKK	177.00
Delhaize	BE0003562700	nothing to disclose	EUR	93.06
Deutsche Telekom	DE0005557508	nothing to disclose	EUR	14.97
Diageo	GB0002374006	nothing to disclose	GBP	1,880.00
EDP Renovaveis	ES0127797019	nothing to disclose	EUR	6.44
Ence	ES0130625512	nothing to disclose	EUR	2.82
ENEL	IT0003128367	nothing to disclose	EUR	3.71
ENEL Green Power	IT0004618465	nothing to disclose	EUR	1.89
Engie	FR0010208488	nothing to disclose	EUR	13.08
ENI	IT0003132476	14, 16, 18	EUR	12.44
ERG	IT0001157020	nothing to disclose	EUR	11.50
Eurofins	FR0000038259	nothing to disclose	EUR	321.15
Falck Renewables	IT0003198790	nothing to disclose	EUR	0.91
FCC	ES0122060314	nothing to disclose	EUR	7.58
Fortum	FI0009007132	nothing to disclose	EUR	12.74
Gamesa	ES0143416115	nothing to disclose	EUR	16.73
Geberit	CH0030170408	nothing to disclose	CHF	358.20
Glencore Xstrata	JE00B4T3BW64	nothing to disclose	GBP	141.85
Groupe Eurotunnel	FR0010533075	nothing to disclose	EUR	9.40
Heineken	NL0000009165	nothing to disclose	EUR	79.00
Henkel	DE0006048432	nothing to disclose	EUR	96.70
Hennes & Mauritz	SE0000106270	nothing to disclose	SEK	265.20
HERA	IT0001250932	14, 16, 18	EUR	2.61
Iberdrola	ES0144580Y14	nothing to disclose	EUR	5.76
Inditex	ES0148396007	nothing to disclose	EUR	28.45
Informa	GB00BMJ6DW54	nothing to disclose	GBP	700.00
ING Group	NL0000303600	nothing to disclose	EUR	10.13
InterContinental Hotels Group	GB00BN33FD40	nothing to disclose	GBP	2,846.00
Intesa Sanpaolo	IT0000072618	nothing to disclose	EUR	2.21
IREN	IT0003027817	nothing to disclose	EUR	1.55
J Sainsbury plc	GB00B019KW72	nothing to disclose	GBP	278.30
JC Decaux	FR0000077919	nothing to disclose	EUR	38.47
L'Oréal	FR0000120321	nothing to disclose	EUR	154.20
LafargeHolcim	CH0012214059	nothing to disclose	CHF	46.66
Legrand	FR0010307819	6, 14, 16, 18	EUR	47.75
Lenzing	AT0000644505	nothing to disclose	EUR	67.90
Linde	DE0006483001	nothing to disclose	EUR	122.30
LVMH	FR0000121014	nothing to disclose	EUR	145.35
Metro	DE0007257503	nothing to disclose	EUR	26.49
MVV Energie	DE000A0H52F5	nothing to disclose	EUR	19.50

Nestlé	CH0038863350	nothing to disclose	CHF	71.05
NN Group	NL0010773842	nothing to disclose	EUR	28.77
Nordea Bank	SE0000427361	nothing to disclose	SEK	74.70
Nordex	DE000A0D6554	nothing to disclose	EUR	23.04
Novozymes	DK0060336014	nothing to disclose	DKK	290.80
Oerlikon	CH0000816824	nothing to disclose	CHF	9.51
Orange	FR0000133308	nothing to disclose	EUR	14.11
Osram Licht	DE000LED4000	nothing to disclose	EUR	45.13
Pearson	GB0006776081	nothing to disclose	GBP	862.50
Pfeiffer Vacuum Technology	DE0006916604	nothing to disclose	EUR	96.00
Philips	NL0000009538	nothing to disclose	EUR	23.89
Reckitt Benckiser	GB00B24CGK77	nothing to disclose	GBP	6,768.00
Repsol	ES0173516115	nothing to disclose	EUR	9.32
SABMiller	GB0004835483	nothing to disclose	GBP	4,220.00
Saeta Yield	ES0105058004	nothing to disclose	EUR	8.70
Safran	FR0000073272	nothing to disclose	EUR	58.91
Saint-Gobain	FR0000125007	nothing to disclose	EUR	37.52
Santander	ES0113900J37	nothing to disclose	EUR	3.65
SAP	DE0007164600	nothing to disclose	EUR	68.78
Schneider Electric	FR0000121972	nothing to disclose	EUR	52.36
Siemens	DE0007236101	nothing to disclose	EUR	89.18
Société Générale	FR0000130809	nothing to disclose	EUR	31.09
Statoil	NO0010096985	nothing to disclose	NOK	122.60
Stora Enso	FI0009005961	nothing to disclose	EUR	7.64
Suez	FR0010613471	nothing to disclose	EUR	15.69
Svenska Handelsbanken	SE0007100599	nothing to disclose	SEK	100.60
Syngenta	CH0011037469	nothing to disclose	CHF	399.70
Séché Environnement	FR0000039109	nothing to disclose	EUR	28.52
Talgo	ES0105065009	15, 17, 19	EUR	4.37
Telefonica	ES0178430E18	14, 15, 16, 17, 18, 19	EUR	9.08
Tesco	GB0008847096	nothing to disclose	GBP	187.65
Total	FR0000120271	nothing to disclose	EUR	38.35
TUI	DE000TUAG000	14, 16, 18	EUR	13.00
UBS	CH0244767585	nothing to disclose	CHF	14.43
Umicore	BE0003884047	nothing to disclose	EUR	41.92
Unilever	NL0000009355	nothing to disclose	EUR	39.44
UPM	FI0009005987	6	EUR	15.69
Veolia	FR0000124141	nothing to disclose	EUR	20.46
Verbund	AT0000746409	nothing to disclose	EUR	11.18
Vestas Wind Systems	DK0010268606	nothing to disclose	DKK	454.10
Vinci	FR0000125486	nothing to disclose	EUR	64.74
Vivendi	FR0000127771	nothing to disclose	EUR	18.11
Volkswagen	DE0007664039	nothing to disclose	EUR	102.85
Vossloh	DE0007667107	nothing to disclose	EUR	57.01
Wacker Chemie	DE000WCH8881	14, 16, 18	EUR	73.37
Whitbread	GB00B1KJJ408	nothing to disclose	GBP	3,845.00
Wienerberger	AT0000831706	6, 9	EUR	16.91
Wm Morrison	GB0006043169	nothing to disclose	GBP	293.50
Zalando	DE000ZAL1111	nothing to disclose	EUR	28.38
Zehnder Group	CH0276534614	nothing to disclose	CHF	39.50
Zodiac Aerospace	FR0000125684	6	EUR	17.10
Zumtobel	AT0000837307	nothing to disclose	EUR	14.00

Source: Factset closing prices of 05/04/2016

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Source: Kepler Cheuvreux
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