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Automotive Sector: Engagement and Voting

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Within our engagement activities, the automotive sector is one of the most intensively addressed sectors. In addition to the dialogues we have with companies, we also exercise our voting rights at the AGMs of various companies in this sector.

Diesel emission scandal & Volkswagen

The collusion among German car manufacturers, which according to media reports started as early as in the 1990s, is the ground zero of the diesel scandal. In addition to parts of emission treatment, software solutions aimed at setting the exact degree of (lack of) contamination seem to have been part of the collusion as well.

As pioneer and market leader, the German automotive industry holds a special kind of responsibility. But it seems that while the official idea was to create the cleanest and most efficient car in free competition, the unofficial, backchannelled idea was exactly the opposite. The use of cheating software did not only violate the law. By emitting increased amounts of poisonous nitrogen oxide, the perpetrators knowingly polluted the air and thus put the health of many people at risk.

The free software update that was provided in response was not adequate from the Erste AM ESG analysts' point of view. Therefore, we excluded the involved car manufacturers from the sustainable universe last year. Due to newly emerged accusations in connection with human and animal test subjects in emission testing at the Volkswagen group, we shifted our engagement focus on the dialogue with Volkswagen at the end of 2018.

We also discussed the technological options of reducing the issues of diesel engines. At the end of last year, we noticed first signs of Volkswagen coming around with regard to the hardware updates so far refused.

Climate Action 100+

In addition to engagement in connection with the diesel emission scandal, we also implemented numerous engagements within the Climate Action 100+ Initiative. This initiative is a coalition under the patronage of PRI, IIGCG, and Ceres and was founded at the end of 2017. This umbrella pools more than 300 international investors with about USD 32,000bn of assets under management.

The goal is to motivate the 100 biggest global greenhouse emitters to reduce their emissions and to put a financial value to climate risks in their balance sheets. Engagements with BMW, Chevron Corp, Fiat Chrysler, Ford Motor, Nissan Motor, Renault, and Volvo were implemented in 2018 in this context.

Voting in line with sustainable voting right guideline

Sustainability topics are increasingly addressed at AGMs as well. According to ISS (International Shareholder Services), more shareholder motions were filed in environmental and social areas than in governance in 2019. Many of these motions were withdrawn as well, because it had been possible to reach an agreement with Management prior to the AGM. At Erste AM, we exercise voting rights according to a guideline that is based on sustainable principles.

It defines for example at what point a member of the board is to be considered independent. In severe cases of ESG controversies, we may deny the Executive or Supervisory Board the formal approval of their actions through our votes. In 2018, we exercised the voting rights for 3.2bn of the votes we held at more than 300 AGMs. Among them were the AGMs of Volkswagen, BMW, Daimler, Nissan Motor, and Toyota Motor.

Board of Volkswagen largely denied formal approval of their actions

In 2018 Volkswagen AG was fined EUR 1bn in connection with the diesel scandal, which the board accepted. The subsidiary Audi AG was subsequently fined EUR 800mn. Due to these events, the suspicion of a weak governance structure of the company, and the costs created both in monetary terms and in terms of reputation, we largely denied the Executive and Supervisory Board of Volkswagen formal approval of their actions.

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