

## ENGAGEMENT FACTSHEET

# Volkswagen AG

### ENGAGEMENT RATIONALE

Volkswagen (VW) has the lowest ESG rating, CCC and a fail status on UN Global Compact norms according to MSCI. We decided that a continued investment in VW would only be justified if the company demonstrated significant positive cultural change, to ensure ethical conduct by employees going forward. We entered into dialogue with the company to get a better understanding of the changes it is making. We felt that the culture change was key for the company to remain competitive and be at the forefront of technological change in the sector.

### BACKGROUND

We wrote to VW in June 2018 to start the engagement, highlighting our history as a long term investor in VW securities and the importance we assign to cultural change for the future success of the firm.

### THEMES FOR ENGAGEMENT

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### ENGAGEMENT OBJECTIVE

- × To encourage cultural change at VW so that the strategic direction (innovation/mobility) of VW goes hand in hand with organisational and cultural restructuring.
- × Identify a set of shared KPI's to track and measure VW's progress on improving corporate culture.
- × Kempen requested improved transparency around: 1) The definition of the cultural change that VW aims to achieve; 2) Clear targets and deadlines; 3) Frequent reporting on the process.
- × We also engaged with VW on its compliance with the Paris Agreement and Electric Vehicle (EV) development.

## DEVELOPMENT



## MILESTONE



### ENGAGEMENT RESULTS

- × VW showed improvement in its approach via publication of an updated group compliance plan for 2019 and a detailed programme to improve compliance and integrity. We saw clear commitment to achieve cultural change and improve transparency.
- × VW showed strong commitment to reducing CO<sub>2</sub> emissions via an ambitious programme targeting a CO<sub>2</sub> neutral fleet by 2050 and full compliance with GHG emission standards based on the Paris Agreement. It reports that a third of total CAPEX spend will be re-directed to development of EV's for a total of €50 billion by 2023.
- × The company currently has the most ambitious CO<sub>2</sub> targets among all automobile original equipment manufacturers (OEMs) mid and long term. VW cars are responsible for 1% of total global CO<sub>2</sub> emissions. The company aims to reduce that to zero by 2050 and it also targets full CO<sub>2</sub> neutrality for all its production plants.
- × Furthermore in our last conversation with the company in June 2019 we discussed further steps the company can take to improve its governance and sustainability profile and send a clear signal that it matters to investors. We explained to the company that due to the lower rating we and other investors are only able to invest part of the capital that we otherwise would. So poor ESG performance is costly for the company from a cost of capital / funding perspective.

### NEXT STEPS

- × Evaluate the progress of VW on their environmental goals and on its announced investments to develop Electric Vehicles and alternative drivetrains.
- × Monitor the progress on corporate culture change.
- × Follow up with VW on market impact of low ESG ratings.

## SDG



### COMPANY

Volkswagen is the largest global automotive OEM manufacturing (luxury) automobiles, trucks and commercial vehicles under various brands

### COUNTRY

Germany

### SECTOR

Automobiles sector

### MARKET CAP

Large cap: € 78 bln

### ISSUE

Emissions scandal emerged in 2015 identifying Volkswagen as actively manipulating diesel emission via illegal software in order to comply with emission regulation in the US on NOx, with a negative impact on public health. Also petrol engines were affected, manipulating CO<sub>2</sub> emissions. In total 11 million cars were affected.

### MATERIALITY

Issues are very material as they relate to the core of the business. Misconduct is influenced by the corporate culture and hierarchical structure  
#1 global OEM with material impact on global CO<sub>2</sub> emission levels.

### MSCI ESG

UN Global Compact: Fail  
ESG Rating: CCC