

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 could demonstrate significant positive cultural change, ensuring ethical conduct of 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

June 15, 2018 start of engagement by writing to VW and highlighting our history of being long term investor in VW securities and the importance we assign to cultural change for the future success of the firm.

THEME FOR ENGAGEMENT

x Environment & Governance



ENGAGEMENT OBJECTIVE

- x Create awareness at VW regarding the importance we assign to cultural change. We feel organizational disruption that is needed for strategic direction (innovation/mobility) of VW goes hand in hand with organizational and cultural restructuring.
- x Identify a set of shared KPI's to track and measure VW's progress on improving corporate culture.
- x 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.
- x Engage with VW on compliance with Paris Climate agreement and Electric Vehicle development.

DEVELOPMENT



MILESTONE



ENGAGEMENT RESULTS

- x VW showed improvement in approach via publication of updated group compliance plan for 2019 and a detailed program to improve compliance and integrity. We saw clear commitment to achieve cultural change and improve transparency.
- x VW showed strong commitment to reducing CO₂ emissions via an ambitious program targeting CO₂ neutral fleet by 2050 and full compliance with GHG emission standards based on this Paris Climate agreement. 1/3rd of total CAPEX spend will be re-directed to development of EV's for a total of €50 billion by 2023.
- x The company currently has the most ambitious CO₂ targets among all OEM's mid and long term. VW cars are responsible for 1% of total global CO₂ emissions. The company targets to reduce that to 0 by 2050 and it also targets full CO₂ neutrality for all its production plants.
- x 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

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



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 NO_x, with a negative impact on public health. Also petrol engines were affected, manipulating CO₂ emissions. In total 11 mio 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 CO₂ emission levels.

MSCI ESG

UN Global Compact: Fail
ESG Rating: CCC