



VAN LANSCHOT
KEMPEN

The pandemic, the factories and the CEO

Sustainability in Action | November 2023

Engagement

Companies

Nike, Jabil, Vinci

E, S of G?

Social & Governance

Theme

Labour rights, supply chain management, good governance

SDG



Anna Ferschtman
Sustainability writer

Is there a link between a grip on supply chains and working conditions? The answer to this question is obviously yes: a company which has an understanding of its supply chain also has an understanding of working conditions within that chain. Portfolio Managers at Van Lanschot Kempenn speak with companies about their understanding of their supply chains, and the working conditions of the employees. We provide below two examples of our key engagement around this social issue.

Another question is whether executive pay should depend on the working conditions of employees? We believe it should, and so took up the case of French infra giant Vinci, where last year despite road workers having been killed, the CEO still pocketed his bonus.

Just do it?

This is not just Nike's famous marketing slogan, but also what the sportswear and accessories manufacturer preaches in its own 2022 Impact report. Amongst other things, the company advocates sustainable procurement practices and minimum requirements for its suppliers. But Nike negatively hit the headlines on this very issue. As one of the company's suppliers - Ramatex Group - became embroiled in a dispute over non-payment of wages to the employees of two sub-suppliers, in Cambodia and Thailand. Together with nearly 70 other investors, Van Lanschot Kempen took Nike to task over this in a public letter this autumn.

In Cambodia, all workers at a Ramatex supplier - Violet Apparel - were sent home without severance pay during the Covid-19 pandemic. According to the NGO Workers Rights, these workers were entitled to a total of \$1.4 million in payouts. Nike's claim, that it had no direct relationship with Violet Apparel, is disputed by the investors which have signed the letter to the company. Possibly Nike was not aware that Ramatex had outsourced production to Violet Apparel. This in turn, raises questions about how much visibility Nike - a company which is part of the Kempen Sustainable Equity strategy's investments - has over its supply chain.

Also in Thailand, Ramatex was found to have sent employees home during the Covid-19 pandemic without continuing payment of their wages to which they were entitled for some time. This totaled over US \$800,000. Van Lanschot Kempen and other investors have asked Nike to comply with this obligation and not to settle for Ramatex's statement that the employees voluntarily handed over their wages.



Silver or Gold?

Our engagement with Jabil, a US manufacturer of electronic devices and components including electric toothbrushes, iPhones and data centre components, also focused on how much visibility and control the company has over its suppliers, and the working conditions in the many factories where Jabil's products are made.

Our impression that Jabil is serious about sustainability issues was confirmed during our interviews earlier this year. Jabil said to have screened 95% of all its production sites and confirmed it would have all sites checked and on its radar by the end of 2023.

We also urged Jabil to raise its membership level with the Responsible Business Alliance (RBA). Currently the company has a 'Silver' status in this coalition of (electronics) companies that focuses specifically on sustainability within supply chains. We believe that with little effort, Jabil could advance to the even more sustainable 'Gold' level. Jabil has agreed to consider this further and make a decision next year.

Jabil is one of the larger holdings within the Global Small Caps strategy at almost 5%. In our view the company is ahead in terms of oversight of its supply chain. And this is exactly what we look for: sustainable business practices and good oversight of supply chains reduce the risk of scandals and reputational damage, and hence the risk of worsening results.

Another topic of discussion was the payment of the so-called 'living wage'. Companies are obligated to pay the local minimum wage, but we encourage businesses to raise the wages of employees above this - including those at suppliers - to the 'living wage' level. This is a level at which the employee and their family will not fall below the poverty line. The exact amount varies for each country and is determined by various NGOs. This was discussed within the RBA, Jabil explained, but there was not yet a majority in favor of adopting it as a standard. Because of this, our engagement with Jabil is still ongoing.



Bonus vs life?

Where the engagement with Nike was about unpaid payments, our contact with Vinci, the French construction and infrastructure company, was about something that was paid: the bonus of their CEO Xavier Huillard. Part of Huillard's bonus is linked to sustainability (ESG) aspects, particularly the health and safety of employees. We believe it is important to link remuneration to ESG objectives. However, what concerns us was that Huillard's bonus for 2022 - around 2 million euros - was in fact paid to him, despite the fact that at least four employees died in work-related incidents that year.

As an active shareholder - Vinci being a company in which our Infrastructure Strategy is invested - we sent a letter to Vinci this autumn with a proposal to handle this differently in the future. We suggested making the payment of the bonus portion linked to ESG, contingent on a simple condition: zero deaths at

“

We encourage businesses to raise the wages of employees to the 'living wage' level. This is a level at which the employee and their family will not fall below the poverty line.



work. In our view, this is a bare minimum that should incentivise the company to further ensure the safety of their employees. It would also, in our opinion, enhance Vinci's reputation and serve as a 'good practice' example for other companies in the sector.

After sending the letter, we reiterated our proposal a few weeks later during an investor meeting at the company. However, as yet Vinci has not officially responded to our request. Our involvement with Vinci is therefore ongoing.

The next step?

Engagement involves several stages. In our initial contact with a company, we present the issues we would like to discuss with them in a letter, email, or phone call. This is often followed by one-on-one conversations, but sometimes we join a collective initiative with multiple investors. If the engagement with the company does not proceed as desired, we can pursue

various escalation routes. We can express our concerns during the annual general meeting, either individually or together with other investors. We can initiate or join collaborative actions, and if the company fails to respond adequately, we can also take the step of publicly expressing our concerns, for example through an open letter or the media.

Selling a share is the very last option we consider. As active investors, our aim is to encourage companies to make positive changes and create positive real world impact. As shareholders, we have better access to companies and more influence than if we simply divest from the stock.

“

If the engagement with the company does not proceed as desired, we can pursue various escalation routes.

Disclaimer

Van Lanschot Kempen Investment Management (VLK IM) is licensed as a manager of various UCITS and AIFs and authorised to provide investment services and as such is subject to supervision by the Netherlands Authority for the Financial Markets. This document is for information purposes only and provides insufficient information for an investment decision. This document does not contain investment advice, no investment recommendation, no research, or an invitation to buy or sell any financial instruments, and should not be interpreted as such. The opinions expressed in this document are our opinions and views as of such date only. These may be subject to change at any given time, without prior notice.

The value of your investment may fluctuate. Past performance provides no guarantee for the future. The figures presented are gross performance, the effect of potential fees and charges is not included. The level of the fees and charges will depend on the applied product structure, this will have effect on the net performance.



Beethovenstraat 300
1077 WZ Amsterdam
Postbus 75666
1070 AR Amsterdam

T +31 20 348 80 00
[Investment Management \(vanlanschotkempen.com\)](https://www.vanlanschotkempen.com)