DE PURY PICTET TURRETTINI & CIE SA

CADMOS-GUILÉ EUROPEAN ENGAGEMENT FUND

Buy & Care® responsible investment fund

Activity Report 2014–2015

GUILÉ FUNDS

DE PURY PICTET TURRETTINI & CIE SA

In 1996 David de Pury, Guillaume Pictet, Henri Turrettini and Christian Berner joined forces to create their company. *de Pury Pictet Turrettini & Cie S.A.* (PPT) provides wealth management services. The firm has developed advanced skills in asset management for both private and institutional clients and currently manages around CHF 3 billion.

de Pury Pictet Turrettini & Cie has always demonstrated a great capacity for innovation, notably as a pioneer of responsible investment. It is the owner of the Buy and Care® strategy, manager of the Guilé European Engagement Fund compartment and promotor of the Guilé Funds, and ensures the Funds' consistency, transparency and distribution. PPT is a signatory to the United Nations-supported Principles for Responsible Investment (PRI).

FONDATION GUILÉ

RESPONSIBILITY CREATES VALUE

Guilé is a contraction of the first names of Maguy and Léon Burrus. The Burrus family company was the first in Switzerland to introduce a pension fund and family allowances. When the business was sold, the sixth generation decided to set up the Guilé Foundation, whose mission is to promote corporate responsibility in terms of respect for human dignity and the environment.

The Guilé Foundation, to which the Guilé Funds return a significant portion of their management fees, has signed a Memorandum of Understanding with the United Nations Global Compact (UNGC). The Foundation embraces the universal values enshrined in the ten principles of the Global Compact and acts as a catalyst by helping companies to put those principles into practice. The company assessments, known as the GuiléReportingAssessment©, and the ensuing dialogue are services provided by the Guilé Foundation to the Guilé Funds.

ABSENCE OF CONFLICT OF INTEREST DECLARATION:
The mission of the Guilé Foundation requires strict attention to matters of independence and impartiality in order to preserve the integrity of its engagement process. It is extremely important that the extra-financial analysis of companies in the Guilé Funds, a critical part of these products, is not compromised by any conflict of interest on the part of the analysts. Therefore, the Guilé Foundation formally states that BHP, the company that provided the specialists on the Guilé Engagement Team, received no fees in 2014–2015 from the companies that compose the Guilé Funds.

Welcome

For the fifth consecutive year, de Pury Pictet Turrettini & Cie S.A. (PPT) is publishing a transparent, comprehensive report on the performance of the Cadmos-Guilé European Engagement Fund (GEEF). PPT is both manager and promoter of the GEEF, which was launched in 2006 and has since inspired the creation of other Guilé Funds compartments. All are based on the Buy & Care strategy, whose objective is to demonstrate that profitability and responsibility can be reconciled. To that end, our investment decisions are systematically based on sound fundamental analysis, a disciplined management process and a keen understanding of the companies' business models (see chapter 2.1).

The Fondation Guilé, in its capacity as advisor to the Guilé Funds, organises, coordinates and maintains an on-going dialogue with the governing bodies of all the companies in which we invest. This year again, the expertise of the Guilé Engagement Team (GET) resulted in dialogue with a record number of companies. The privileged partnership established with the United Nations Global Compact (UNGC) guarantees the credibility of the Fondation Guilé and its corporate assessment methodology. Details are provided in chapter 2.3.

This year again, the expertise of the Guilé Engagement Team (GET) resulted in dialogue with a record number of companies.

The shareholder engagement with the underlying companies represents a key distinguishing feature of our Buy & Care strategy as applied to the Guilé Funds. Through this dialogue, the portfolio managers obtain a deeper insight into the sustainability of each company's business model and can thus incorporate its environmental, social and governance (ESG) characteristics into their financial analysis. The dialogue is also highly valued by the companies, as it improves their ability to judge the impact and quality of their ESG communications. In addition, the GET constantly stimulates the companies to find practical ways of achieving further progress and increasing their efficiency. Chapter 5 provides a detailed analysis of the impact of our shareholder engagement.

The present report covers our performance on all our asset management, voting and engagement activities in the 2014 calendar year. The shareholder engagement carries over into the first three months of the following year to accommodate our dialogue with the many companies that still publish their extra-financial report at a later date. This document therefore contains all the discussions held with the companies up to the end of March 2015.

The portfolio managers assume all the investment and voting decisions concerning the underlying companies and participate actively in the shareholder dialogue with those companies. They are neither bound by nor reliant on restrictions, analyses or ratings determined elsewhere, but form their opinion during their frequent visits to the companies' governing bodies. **To our knowledge, this direct involvement of the portfolio managers is unique.** When voting, the managers are supported in their decisions by governance consultants, who analyse the annual general meetings and make voting recommendations. The voting results are detailed in chapter 4.

The first five chapters of the present report consist of open information and are available on the website: http://www.ppt.ch/en/reporting-and-documents/. The sixth chapter contains individual pages on each of the GEEF companies, with details of the assessment and dialogue conducted by the Guilé Fund's experts. The report naturally places the emphasis on those voting and engagement activities where the performance calls for a more qualitative discussion. The complete document is reserved for our current and prospective investors and is distributed solely in hard copy form. The content of the discussions with the companies must be accessible only to a restricted readership. This confidentiality, together with the wealth of skill and advice provided by the experts from the Fondation Guilé, contributes to the efficient, transparent and non-indulgent dialogue that underpins the Guilé Engagement Funds' success.

We hope that you will enjoy reading this Activity Report for 2014–2015. We also take this opportunity to thank our investors for their trust in us year after year.

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Summary of results in 2014-2015

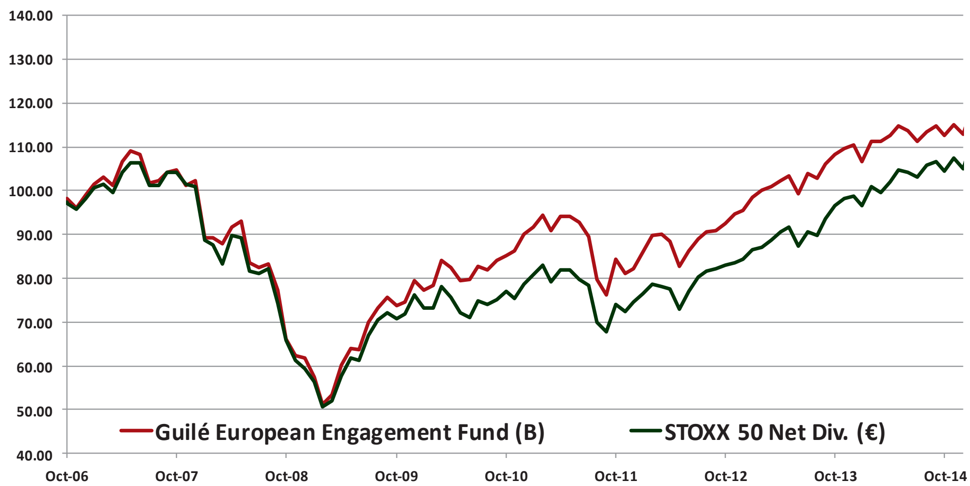
FINANCIAL PERFORMANCE

The Cadmos-Guilé European Engagement Fund (GEEF), managed and promoted by PPT, is a compartment of the Luxembourg-based umbrella fund Cadmos Fund Management (Guilé Funds). Christopher Quast, head of European equity management at PPT since 1999, has managed the fund since its inception. In 2014, classes A and B of the compartment returned 1.4 per cent and 2.2 per cent respectively, underperforming the benchmark index (the Dow Jones Stoxx 50 with net dividends reinvested), which rose 6.2 per cent. This year, a particularly difficult one for active management and high-quality businesses, complicated matters for our Buy & Care strategy, which focuses on a much longer time horizon. According to the Fitch Ratings statistics, almost 80 per cent of funds underperformed their benchmarks in 2014. Nevertheless, the persistence of the macroeconomic uncertainties and the frequent falls followed by rapid rebounds tend to argue in our favour, already in the medium term. The monthly report for December 2014 presented overleaf indicates an outperformance of 6.8 per cent since the launch of the compartment (Class B) in 2006.

OUTPERFORMANCE OF 6.8 PER CENT SINCE THE LAUNCH OF THE COMPARTMENT (CLASS B) IN 2006.

Healthcare stocks were the main drivers of the relative performance. The emergence of new pharmaceutical products after years of weak R&D pipelines boosted Novartis and Novo Nordisk. The other healthcare companies in the portfolio (Essilor International, Fresenius Medical Care and new entrant Coloplast) continued to implement strategies based on particularly robust business models. A few consumer-orientated companies, such as Hennes & Mauritz, Compass Group and Reckitt Benckiser, who again performed in line with our expectations, also contributed to the relative performance.

The year was marked by the absence of a strong economic recovery, and the banking, industrial and energy sectors therefore underperformed. But the fund's high-quality companies whose business models remain intact and whose productivity has been improved in the meantime should benefit from their exposure to the global market and from the euro's weakness against the major world currencies.



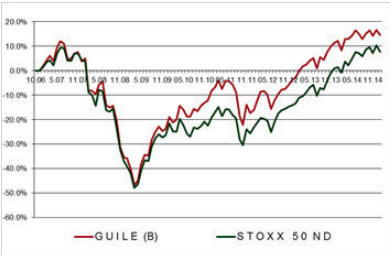
GUILÉ EUROPEAN ENGAGEMENT FUND – CL. B

December 2014

PERFORMANCE (monthly)

PERFORMANCE

	2014	12/14	2013	2012	2011	2010	Since launch
Fund	**+2.2%**	**-1.7%**	**+15.7%**	**+16.3%**	**-8.8%**	**+13.3%**	**+14.6%**
Stoxx 50 ND	+6.2%	-2.3%	+17.1%	+13.0%	-5.1%	+3.1%	+7.8%
Difference	-4.0%	+0.6%	-1.4%	+3.3%	-3.7%	+10.2%	+6.8%



MANAGER'S COMMENT

European markets ended the year on a somewhat subdued note as worries about political risks in the Eurozone (Greek elections) combined with a view that dropping oil prices reflect a slowdown in the global economy made investors more risk averse. In our view, the Eurozone is currently in a much better situation than in 2011/2012, and we continue to believe that this essentially political project will be kept alive through political actions by European institutions, in particular the ECB. Macroeconomic data do not reflect a slow-down in the global economy, and our interpretation of the weak oil price is that it is the result of a market share war between OPEC and non-OPEC players, including the US and Russia. Weak energy prices, on the contrary, should be supportive of economic GDP growth and operating margins at company level.

In the portfolio, oil-related companies continue to be weak, although we see some increased stability in the integrated players such as Royal Dutch Shell. Banks reacted negatively to the increased risk perception in the Eurozone, and the more cyclical industrials were also weak. On the other hand, the portfolio benefited from defensive consumer plays such as L'Oréal, Reckitt Benckiser, Publicis, Compass Group, Hennes & Mauritz, and healthcare players Coloplast, Essilor and Fresenius Medical Care. Reckitt Benckiser spun off its pharma division, Indivior, to its shareholders.

Christopher Quast

INFORMATION

10 TOP HOLDINGS

Novartis	3.8
Essilor International	3.7
Novo Nordisk	3.6
L'Oréal	3.4
Compass Group	3.2
Hennes & Mauritz B	3.0
Saint-Gobain	2.8
Coloplast	2.8
SAP	2.7
Fresenius Medical Care	2.7

SECTOR ALLOCATION

Banking	16.9
Healthcare	16.6
Industrial Goods & Services	8.3
Oil & Gas	8.0
Food & Beverages	7.3
Insurance	6.9
Construction & Materials	6.1
Pers. & Household Goods	6.1
Chemicals	4.1
Travel & leisure	3.2

QUANT. & STAT. INFORMATION

	1 YEAR ROLLING
Fund Size (EUR mios)	74.6
NAV EUR	112.99
Volatility	13.9%
Beta	0.96
Alpha	-0.08
Sharpe Ratio	0.05
Tracking Error	2.95
Information Ratio	-1.44
Number of holdings	43

INVESTMENT POLICY

- Guilé European Engagement Fund aims to beat its benchmark by constantly researching and investing in companies for which value creation potential is significantly under-estimated by the market.

- 50% of the fund's management fee is used to finance the activity of the GUILE ENGAGEMENT TEAM whose objective is to assist the companies in putting in place the 10 principles of the United Nations Global Compact.

- The Global Compact is today the world's largest corporate citizenship initiative, broadly recognized by business, civil society, and governments. Its 10 principles pertain to human right, labor, environment and anti-corruption. More than 8,000 companies have already signed.

GENERAL INFORMATION

ISIN	LU0412997206
Bloomberg	CADGUIB LX
Value Number	2031361
Launch date (class A)	19.10.2006
Benchmark	DJ Stoxx 50 Return
Fund Manager	de Pury Pictet Turrettini & Cie SA
Custodian	Pictet & Cie (Europe) SA
Fund Type, reg.	SICAV - UCITS IV
Dealing	Daily
Distribution	None, accumulation
Management fee	0.8%

Voting performance

During the period under review we expressed an opinion on 828 items on the agendas of annual general meetings (AGMs), representing an increase of 20 per cent in the number of voting decisions. This additional workload is directly related to investors' demands for greater transparency. The votes concerning remuneration almost doubled, rising from sixty-three resolutions in 2013 to 124 in 2014.

As in 2013, so in 2014 the AGM season was marked by the debate on excessive executive pay. In our previous activity report we wrote that the effects of the Minder Initiative and of the increased transparency required in Europe would begin to be felt during the 2014 AGM season. This year, we opposed 19.4 per cent of pay-related items on the agenda. High though this rate may be, it has declined significantly (48.9 per cent), reflecting a marked improved in the transparency and consistency of current remuneration practices. Businesses have been quick to adapt and our voting guidelines are clear: "We attach great importance to a transparent, reasonable and well-structured remuneration policy that rewards high performance demonstrated over the long term".

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Although voices are still being raised against the continuing cases of excessive pay, we note that the latter have become less arbitrary and more likely to be justified by the achievement of longer-term performance targets. Rare are the governing bodies that take their AGM lightly. The shareholders have clearly won a round. From routine exercises with little at stake and voting results that barely excited comment during the drinks afterwards, AGMs are gradually turning into meticulously orchestrated meetings with well-prepared executives and directors.

Despite all these improvements, we refused to back the board of directors in sixty-seven of the 828 votes cast (8.1 per cent). The rate of dissent has therefore declined to half last year's level. As noted earlier, that improvement relates mainly to the increased transparency.

For each vote, we evaluated the company's specific situation and made a decision, according to our voting guidelines, in the compartment's long-term interests.

Themes	No. of votes	Against	%
1- Board of directors	362	24	6.6%
2- Remuneration	124	24	19.4%
3- Capital structure	258	2	0.8%
4- Shareholders' rights	84	17	20.2%
Total	828	67	8.1%

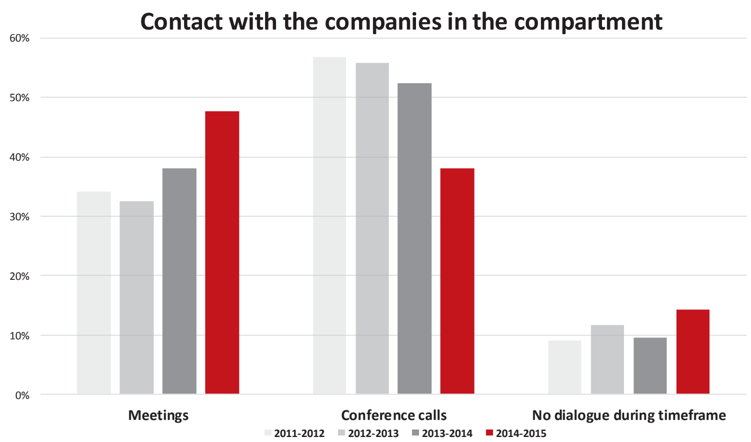
Engagement performance

Of the forty-three companies in the portfolio at 31 December 2014, forty-two[1] have been assessed[2] according to the ten principles of the Global Compact. Credit for this success must go to the dedication of the Guilé Engagement Team (GET) and the stability of the portfolio managed by PPT.

On the basis of the assessments carried out, an active dialogue was conducted with thirty-six companies, mainly through twenty visits to Basel, Geneva, Munich, Paris and Zurich (56 per cent) and sixteen conference calls (38 per cent).

the company's specific business model and the financial materiality of its ESG issues. Some companies contact the Fondation Guilé on their own initiative to continue the dialogue begun in previous years.

This year we visited almost 50 per cent of the companies in the fund, a significant increase compared with previous years. We also elected to space out the conference calls with some of the companies whose ESG progress was less significant.



Face-to-face meetings were given priority this year. They generally take place in a highly constructive atmosphere, with astonishing transparency on the part of the companies. The latter particularly appreciate the joint presence of the Fondation Guilé experts and the portfolio managers, which is unique in the responsible-funds universe. As a result, 85 per cent of the companies maintain a regular dialogue with us. This integration of different skills enables us to fine-tune the discussion according to

That decision partly explains the slight increase in the number of companies with which we did not pursue the dialogue during the 2014–2015 engagement period. This choice enabled us to go more deeply into the subjects addressed compared with the previous year and improve the average level of engagement with the companies. We finished well above our target level of 3, with the average impact score hitting a record 4.5. Details of these results are given in chapter 5.

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[1] The company Indivior was not assessed, as the position consists of securities that we received as a shareholder in Reckitt Benckiser Group, following a decision by the AGM of 11 December 2014 to split up the company.

[2] See chapter 2.3 for a detailed description of the assessment methodology.

Testimonials from some of the companies with whom we are engaged in dialogue

"...Many thanks for talking us through the results of the assessment. We found the discussion very useful.
And thanks for getting back to us re. the Scope 3 emissions. We currently report that the customer emissions figure is based on BP's total reported production of natural gas, natural gas liquids and refinery thoroughputs. I will raise your recommendation about including limitations of scope 3 emissions with our GHG team and get their thoughts..."

Kate Niblock-Siddle,
Sustainability Reporting Manager, BP plc.

" ...Thank you for your yearly analysis of the Credit Suisse reporting on corporate responsibility and your feedback on related aspects.
We have appreciated the constructive discussion and to receive your external view as caring stakeholder to further strengthen our extra-financial reporting..."

Caroline Portmann,
Sustainability Affairs, Credit Suisse Group

"...It's also fruitful to have an investor joining the discussion like Christopher Quast, who knows well Publicis.
We are working now on the 2014 CSR Report, and we will try to continue to improve our reporting – So, we will keep in touch... "

Eve Magnant, VP.
Corporate Social Responsibility Director, Publicis Groupe

...and the letter of thanks that followed, signed by Marc Levy, chief executive of Publicis.

PUBLICIS GROUPE

MAURICE LÉVY
Chairman of the Management Board
Chief Executive Officer

Dr Thomas Streiff
Head of Guilé Engagement Team
Advisor to the Guilé Fund

Christopher Quast
Manager of the Guilé European Engagement Fund

Fondation Guilé
Domaine de Guile
Route du Mont Renaud 19-21
CH 2926 Boncourt

Paris, February 3, 2015

Dear M. Streiff and M. Quast,

Thank you for your letter and for your deep screening of our CSR Reporting and activities. Your regular analysis is helping us to better identify areas of improvement.

As you can see in our 2013 CSR Report, we are definitively engaged to improve our actions and results in our 4 main areas: Social, Cultural/Communities, Governance/Ethics, Environment. CSR for Publicis Groupe is not a question of addressing non-financial indicators, but it's really a strategic approach, to be sure that our teams are working in a good environment, to improve the work we are doing for our clients...Our industry is changing very fast in the connected and digital world, leading us to anticipate new trends and our clients' needs.

I know that you had an interesting call with Eve Magnant last week, and I sincerely hope you get all the answers to your questions. CSR topics are challenging due to our decentralized organization, but we have seen over the last years a huge progress coming from all of BUs. Each agency is more active and engaged, and we can see positive results in many areas.

We are working now on the 2014 CSR Report and we are expecting to continue to provide to you and your investors more detailed information on our CSR strategy and indicators.

I wish for us to continue this fruitful dialogue with the Fondation Guile in the future.

With my best regards,

Maurice Lévy

CC: Mrs Eve Magnant, Mrs Martine Hue, M. Jean-Michel Bonamy

We greatly appreciate these testimonials, which bear witness to the results that can be obtained by maintaining an influential dialogue conducted professionally and courteously.

Outlook

The impact of our dialogue – a reflection of how closely the companies are listening – has grown steadily since 2006, the year of our first shareholder engagement. Looking beyond the expressions of thanks from senior managements, we are proud of the tangible results that we publish every year, which tend to show that the Guilé Funds are exerting an influence on businesses' social responsibility. Furthermore, the shareholder dialogue has enabled our portfolio managers to assess the financial impact of the environmental, social and governance issues and thus to develop unique expertise.

Take, for example, the tripartite meetings between the PPT portfolio management team, the GET experts and the company's representatives. Through this unique and innovative practice the Guilé Funds are ideally positioned to achieve the delicate but necessary integration of the financially material ESG factors into the investment processes.

As promoter of the Guilé Funds, PPT works each year to consolidate and strengthen that acquisition. We consider it our fiduciary responsibility to integrate the companies' ESG situation into our models, especially when the impact on revenue, margins, capital structure or cost of capital (risks) is substantial and therefore financially material. In practice, this is a difficult and delicate exercise that most financial institutions neglect, having wrongly assumed that the financial impact will be negligible at best.

Overall, the financial studies published in recent years, whether by industry sources (Mercer, Deutsche Bank, etc.) or universities (Margolis et al. 2007; Eccles et al. 2014) have tended to agree with that assumption; namely, that it is not possible to establish the existence of a positive correlation between businesses' sustainability and their financial performance. Remember that the objective of those studies was primarily to show that there is no negative correlation; that is, that sustainability is not prejudicial to financial performance.

> In other words, the financial materiality of the ESG issues can be used to generate alpha, while the general ESG issues do not destroy it.

We would point to a recent study by Harvard University that sheds new light on the subject by differentiating between general and financially material ESG information.[3] We found this study illuminating because it corresponds more closely to our reality. It concludes, first, that businesses that are better at managing their financially material ESG issues also outperform. Furthermore, according to the same data, the positive correlation does not exist if one considers only the ESG issues in general. In other words, the financial materiality of the ESG issues can be used to generate alpha, while the general ESG issues do not destroy it. This academic study, although newly published, reaches the same conclusions as the Guilé Funds. Another of its findings splendidly corroborates the logic of integration and engagement: the top-performing companies are those whose overall ESG status is less satisfactory but that are best able to manage their financially material ESG issues. That is precisely the goal of the Guilé Funds' shareholder engagement: to ensure that the sustainably profitable businesses in which we invest are able to integrate the financially material ESG factors based on a clear understanding of their worth. Contrary to some socially responsible investment funds (SRI funds), we do not exclude investment in companies that do not comply with the ESG best-in-class criteria; however, we take action as a responsible shareholder by encouraging such companies to meet those criteria, to the benefit of our shareholders and civil society.

For example, in 2014 the portfolio managers compiled a list of questions designed to highlight their concern about the financial materiality of some of the ESG issues. The questions were sent to the senior managements of the companies in our fund, together with the assessments produced by the GET. Here are some examples:

[3] *Mozaffar Khan, George Serafeim and Aaron Yoon: " Corporate Sustainability: First Evidence on Materiality"; 2015.*

Sample questions on financially material ESG issues	
Company	**Issues**
Coloplast	What product safety issues may confront the company? Have there been product recalls?
Novartis	Novartis Japan has recently been accused of fraud and corruption by promoting Diovan inadequately. Is there a specific code of conduct in Japan?
Essilor	What are the current plans of the company to improve the access to optical corrective lenses in emerging countries?
SGS	SGS acquired 15 companies in 2013. What kind of screening did SGS perform before acquiring these companies? Are labor practices or respect of human rights taken into consideration?
Nestlé	Packaging has been reduced by 66'000 tons in 2013 and generated savings of CHF 160mn. Will the ecodesign for sustainable product development and introduction (EcodEX) initiative enable more savings? Where do the savings come mainly from?
Royal Dutch Shell	How does Shell find the balance between reducing the impact of climate change while still doing profitable business in the fossil fuel sector?

These questions from the portfolio managers were discussed during our most recent dialogues in 2014–2015. The answers often proved instructive when it came to validating the business model or better assessing our risk as a long-term investor. They also enabled us to test the consistency and relevance of attitudes in different departments. Businesses welcome these non-indulgent conversations and often mention their frustration at the lack of investors able to discuss the ESG factors while also understanding their company's specific business model.

When our portfolio managers bring up these financially material ESG factors and express their desire to see the company give them more thought and communicate them more clearly, senior management listens closely. We are thus able to gain the attention of the financial directors and support the persons in charge of social responsibility, who are sometimes poorly integrated into the company's global strategy. The adjustments that we deem necessary and that we present as a means of creating value therefore appear more modest. Businesses are prepared to consent, particularly since the request comes from a loyal investor.

Testimonials from companies in favour of this approach of integrated dialogue motivate us to continue on this path. Accordingly, for the 2015–2016 engagement cycle, we have identified a Financial Materiality Focus (FMF) for each of the companies in the compartment. Early in the process, the portfolio managers, together with the GET experts and PPT, determine the topics that will form the common thread of our shareholder dialogue. We address both the risks and the potential business opportunities related to the ESG issues.

While all ten principles of the Global Compact will be systematically analysed and discussed, the FMF will enable us to highlight those that seem the most critical. The GET will define the specific areas with potential for progress and these will be monitored as usual from year to year until the targets are reached or a new FMF changes the engagement priorities. This approach will ensure that we remain leaders in terms of methods of integrating the ESG factors.

The table overleaf presents the FMFs for a selection of the GEEF companies:

Financial Materiality Focus		
Company	Issues	UNGC principle concerned
Group Danone	Product safety and responsible sourcing	P1 - Human rights
Hennes & Mauritz	Human rights, working conditions in the value chain	P2 - Complicity
Royal Dutch Shell	Environmental damage and climate change	P8 - Env. Responsibility
BMW Group	Propulsion systems and alternative materials	P9 - Env. friendly technology
Schneider Electric	Corrupt regimes and bribes	P10 - Corruption

The preliminary identification of the FMFs confirms our projections: the principles relating to human rights and complicity in human rights abuses in the value chain cover the issues that we consider the most financially material (for some 40 per cent of our companies). They embrace broad concepts that deal with the physical integrity (health, safety etc.) and moral integrity (human dignity, right to personal image and honour, respect for the private sphere etc.) of consumers and communities. Businesses in the food, healthcare, telecommunications or media industries are particularly vulnerable and are directly penalised by reputational issues.

> THE PRELIMINARY IDENTIFICATION OF THE FMFS CONFIRMS OUR PROJECTIONS: THE PRINCIPLES RELATING TO HUMAN RIGHTS AND COMPLICITY IN HUMAN RIGHTS ABUSES IN THE VALUE CHAIN COVER THE ISSUES THAT WE CONSIDER THE MOST FINANCIALLY MATERIAL (FOR SOME 40 PER CENT OF OUR COMPANIES).

In the case of the chemical, oil and construction-materials industries, together with insurers and public electricity suppliers, (about 30 per cent of the companies) we are more concerned about the three environmental principles. For industry and services in particular (about 20 per cent of the companies) the anti-corruption principle is a major risk factor. Lastly, and primarily for the rare companies in the portfolio that are active in distribution, travel and leisure (fewer than 10 per cent) the four principles related to international labour standards constitute a financially material threat.

Nevertheless, we remain convinced that the application of the UN Guiding Principles on Business and Human Rights, known as the "Ruggie Principles", continues to represent the main challenge for large multinational companies. These Principles, endorsed unanimously by the UN Human Rights Council in June 2011 and supported by the OECD, the European Union and some leading businesses, require that states and companies take new measures to avoid direct or indirect human rights abuses in their cross-border activities. In Switzerland and Europe the debate around institutionalising the Ruggie Principles has intensified, though apparently the process could take several years. The greatest challenge may consist of enabling victims of human-rights abuses and breaches of the environmental standards of Swiss companies to lodge a complaint in Switzerland and receive compensation. In April 2015, a broad coalition of organisations launched the Responsible Business Initiative in Switzerland. This initiative calls for the introduction of stringent rules obliging businesses to respect human rights and the environment in particular in their activities abroad. By demanding that the duty of due diligence prescribed by the Ruggie Principles be written into Swiss law, it aims at establishing a common base of the minimum human rights standards that every company must respect.

This initiative will foster a healthy and necessary debate that we have already begun. To help businesses grasp the issues at stake and incite them to play a leading role, the Fondation Guilé organised a conference in January

2014 at the Graduate Institute in Geneva, addressed by Professor John Ruggie and attended by more than five hundred people.[4]

One of the points that Professor Ruggie made at the conference was the difficult balance that must be struck between businesses' voluntary self-regulation and a form of coercion. The Initiative provides that businesses shall be required to exercise reasonable due diligence in order to prevent all forms of human rights abuse and shall report on the action taken. Though hard to quantify, the great majority of companies in the Guilé Funds already comply with the main recommendations. For them, such regulation may even represent a competitive advantage over their peers – including those located in the emerging-market countries – who will also have to adapt. The Initiative also provides that victims of human rights abuses may seek redress from the company in question before a Swiss civil court. Unsurprisingly, all the companies view that provision with some concern, even those that have implemented best practices. In our opinion, however, the critical issue is to be found elsewhere: namely, in the human rights abuses by sub-contractors or suppliers that the multinationals do not control. At present, the Initiative lacks details about this difficult distinction, one that could actually incite businesses to offload their responsibilities by delegating more tasks to local subcontractors. Indeed, during the conference, Professor Ruggie dwelt on the complexity of a business's task of controlling its value chain and suppliers. The shareholder engagement also makes one realise how each of the companies – even within the same sector – has its own culture and constraints that make standardised solutions difficult to apply. We believe that the companies must continue to implement individual measures that are not formally required by law. In all such cases, the Guilé Funds will be at their side, helping them to anticipate these social movements and take appropriate steps to reconcile responsibility and profitability.

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[4] *Institut de Hautes Études Internationales et du Développement – IHEID.*

The Guilé Funds' Buy & Care® strategy

For eight years now we have been demonstrating that active management can be reinvented to reconcile profitability with responsibility. Active portfolio management based on thorough fundamental analysis is the keystone of the Buy & Care investment strategy. The strategy, developed by PPT, has now matured to a point where it may be useful to restate its three founding principles. They have proved particularly reliable in the long term and through changing financial and economic cycles.

1. We do not invest in a stock but in a company. Every effort will be made to visit the companies and increase our understanding of their business model and their senior managements' ability to ensure its longevity.

2. The main aim is to create added value for our investors in the medium and long term. We are proud to have advanced active management as a whole, particularly by working with a longer time horizon that requires strict discipline in the fundamental analysis.

> ACTIVE PORTFOLIO MANAGEMENT BASED ON THOROUGH FUNDAMENTAL ANALYSIS IS THE KEYSTONE OF THE BUY & CARE INVESTMENT STRATEGY.

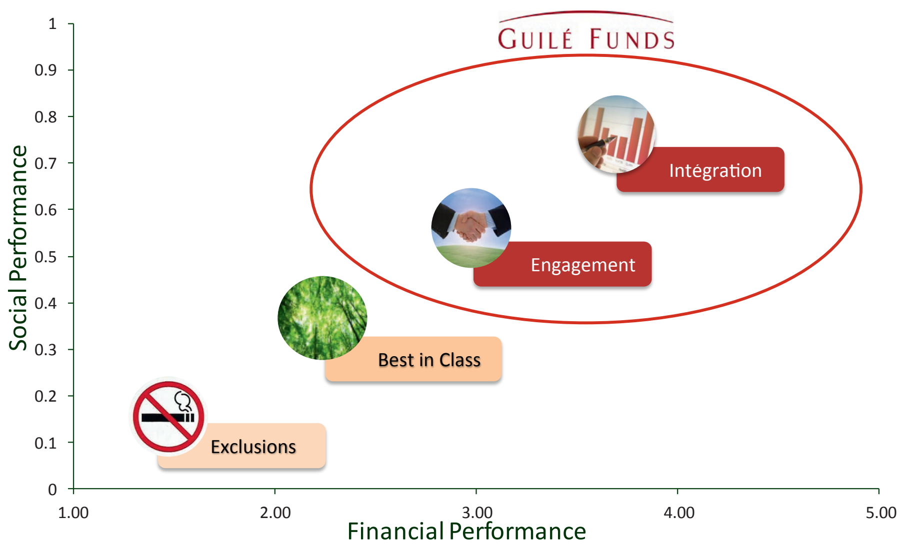
3. We build concentrated portfolios. NOur deep analysis strengthens our convictions and reduces portfolio turnover and transaction fees, while also enabling us to deviate from the benchmarks.

The shareholder engagement that underpins the Buy & Care strategy is applied to all the Guilé Funds. We are convinced that continuous, non-indulgent dialogue with the companies creates value for all the stakeholders. It also enables the portfolio managers to integrate the ESG risks and opportunities into their investment decisions. Through this approach we strengthen our understanding and fundamental analysis of the companies. Our managers' assessments of the risks and sustainability of the companies' business models are sharpened, and their investment convictions are more solidly based. With time, the markets perceive and reward the uptrend in the companies' quality and this is reflected in the value of our investments.

This work calls for a portfolio management team with the skills required to integrate the ESG factors and link them to the classic financial valuation models.

The Guilé Funds managers all benefit from extensive experience and considerable freedom in their capacity as owner-partners of their company. They have been in place since the launch of each compartment and apply the Buy & Care strategy together with deep fundamental analysis, a low turnover rate and shareholder engagement as conducted by the GET.

Compared with the usual SRI methods, based on exclusions and best in class, the Guilé Funds' innovative combination of integration and engagement strategies presents a number of advantages. First, our managers are not subject to dogmatic rules and possibly arbitrary ESG ratings. Free of these external constraints, they are fully responsible for the fund's performance. We believe that in all but a few exceptional cases, dialogue is preferable to exclusion. Sometimes the Guilé Funds remain the only responsible investor still maintaining the dialogue



and suggesting areas with potential for progress on the ESG issues. Either the companies refuse to converse with shareholders that adopt an overly inflexible stance, removed from the economic realities; or the shareholders themselves decide to exclude certain companies from the dialogue.

In addition, the Guilé Funds stand out from the best-in-class strategy, where investment decisions often depend on highly qualitative ESG ratings. These ratings, which rarely integrate the financial parameters or take the trouble to understand the companies' business models, lead to sub-optimal investment decisions. This strategy has difficulty convincing traditional investors, whose scepticism increases when they consult a list of best-in-class businesses, whose social and environmental vocation is not always apparent.

> THE BUY & CARE STRATEGY IS A VIRTUAL, CYCLICAL PROCESS BUILT AROUND LISTENING TO INVESTORS' CONCERNS. APPLIED TO THE GUILÉ FUNDS, IT PUSHES BACK THE FRONTIERS NOT ONLY OF RESPONSIBLE INVESTMENT BUT OF ACTIVE MANAGEMENT.

By taking care not to ostracise profitable businesses that will probably continue to grow, and by concentrating on their progress, so as to ensure that they learn from their mistakes and from our dialogue, the Guilé Funds play a complementary and perhaps significant role in the responsible investment universe.

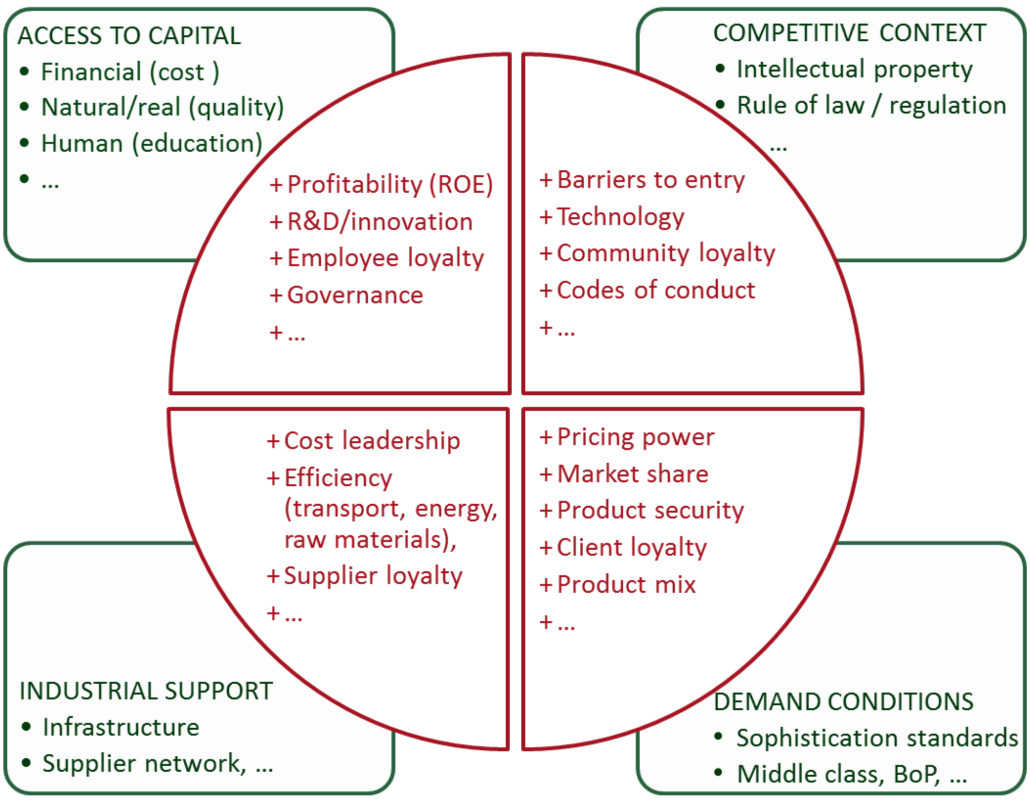
The Buy & Care strategy is a virtual, cyclical process built around listening to investors' concerns. Applied to the Guilé Funds, it pushes back the frontiers not only of responsible investment but of active management. The following diagram provides a simplified view of the three-step Buy & Care process as it applies to the Cadmos-Guilé European Engagement Fund.

Company analysis

Over the years, our approach has evolved steadily, steered by Christopher Quast, portfolio manager of the GEEF since the latter's inception and head of European strategy at PPT since 1999. He begins by identifying the companies whose profitability and debt level enable them to finance their growth while rewarding their shareholders. Profitability must be linked simultaneously to the strength and the longevity of the company's competitive advantage. To calculate the life of the competitive edge, we chart the factors involved (see the following PPT model). This longevity is determined by both the influence of external parameters that are difficult to control (in green) and the balance between the strengths and values of the company itself (in red). Our main source of inspiration was the updated version of the Michael Porter model, which takes up the essential points of his Five Forces model of 1979 but builds in social responsibility.[5]

> He begins by identifying the companies whose profitability and debt level enable them to finance their growth while rewarding their shareholders.

PPT model for analysing the longevity of the competitive advantage Inspired by Michael Porter (2006): "The Link Between Competitive Advantage and Corporate Social Responsibility"



[5] *Michael Porter: "The Link Between Competitive Advantage and Corporate Social Responsibility"; 2006.*

The delicate task of analysing management quality is also made easier by the integrated Buy & Care process. Our visits and discussions enhance our ability to evaluate the consistency between a company's words and its concrete actions. Lastly, the high-quality companies thus identified must still present attractive potential for gains in the medium and long term. The model below provides a partial view of how market value is compared with intrinsic value, estimated based on expected dividend payouts during the period of competitive advantage.

Our practical experience with applying the PPT integrated valuation model obliges us to remain modest and conscious that this is a continuous, difficult learning process. Nevertheless, our results encourage us to stay on course.

PPT valuation model integrating the extra-financial factors:

$$FV = \sum_{n=1}^{\infty} \frac{D_n}{(1+k)^n}$$

- D_0 to D_2 = Consensus expectations
- D_3 to D_{n-1} = f(g*; ROE) = PPT
- n = Longevity of competitive advantage
- D_n to D_∞ = fade to long-term econ. growth

- K = WACC (Risk Free + Premium)
- Risk premium inferred from consensus

THE MODEL BELOW PROVIDES A PARTIAL VIEW OF HOW MARKET VALUE IS COMPARED WITH INTRINSIC VALUE, ESTIMATED BASED ON EXPECTED DIVIDEND PAYOUTS DURING THE PERIOD OF COMPETITIVE ADVANTAGE.

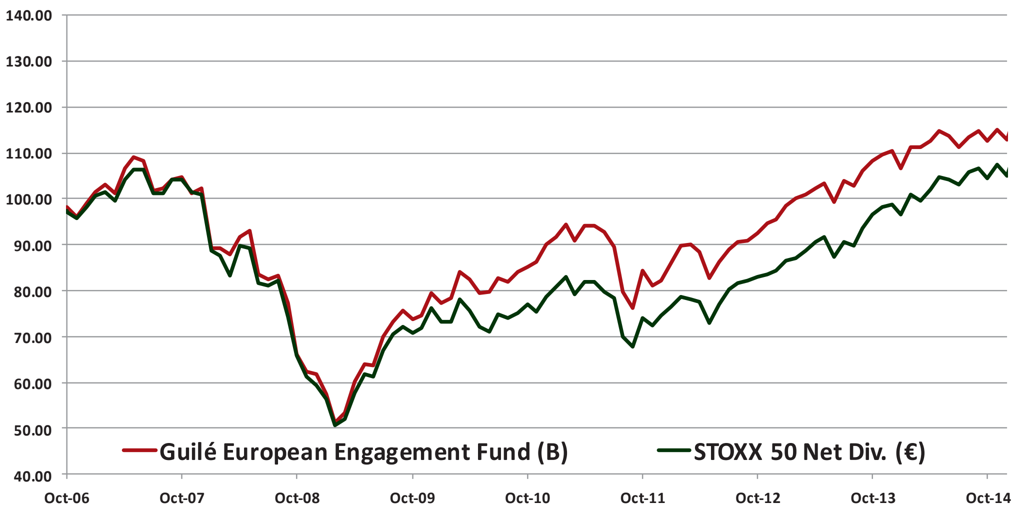
Portfolio management

Constructing the portfolio involves the selection of twenty-five to forty-five companies with strong potential for outperformance in the medium and long term. This concentration is desirable in the case of an engagement fund, since it means that the cost of the shareholder dialogue can be contained. And that concentration is combined with an extremely low turnover rate, which increases the quality of the dialogue. More than 80 per cent of the companies selected as from 2009 are still present in the fund, and we have remained a shareholder of the majority of the companies for at least five years. By comparison, Mercer estimates in its 2010 study that on average a company remains in a portfolio scarcely more than eighteen months, and slightly less than two years in the case of responsible investment funds.[6] The GEEF's long-term outperformance is partly explained by its calm and considered management style.

> More than 80 per cent of the companies selected as from 2009 are still present in the fund

Since the launch of the compartment in 2006, we have outperformed our benchmark, the DJ Stoxx 50 NR (Net Return). At the end of December 2014, the compartment (Class B) was up 14.6 per cent, whereas the benchmark had gained only 7.8 per cent. We do not set ourselves a tracking error target, but the ratio is usually between 4 per cent and 6 per cent. The indices should not influence the investment-decision process but serve solely as a risk-management tool. There are two classes: Class A for private investors and Class B for institutional investors. Half the management fees are handed on to the Fondation Guilé to finance the activities of the GET, which initiates and conducts the shareholder engagement.

A performance like this could not have been achieved without the additional support of an excellent selling discipline. Changes in the fundamentals, risks or valuation of the underlyings together with the quality of the dialogue, will influence the portfolio manager's view and may lead to decisions to sell.



[6] Mercer LLC: "Investment horizons – Do managers do what they say?"; 2010.

Voting and engagement

In the past, company visits and participation in the annual general meeting (AGM) were standard practice for investors. Today, electronic trading and information systems, while useful and efficient, have unfortunately also made some primary sources of information obsolete. In our opinion, voting and shareholder engagement should once again be closely linked to the portfolio manager's investment decision and therefore be part and parcel of his responsibilities. The real long-term financial impact of the decisions made at an AGM is well documented. Few professionals would deny that the skills, independence and availability of a board of directors are critical to a company's future. The effects of a capital increase, for example, will be felt immediately. **For PPT, exercising the right to vote is first and foremost a financial responsibility.**

> The Guilé Funds shareholder engagement is based on the ten principles of the United Nations Global Compact.

Christopher Quast defines his voting positions by studying the analyses of AGMs and the voting recommendations supplied by Glass Lewis. This independent agency is a leading provider of governance assessment and voting advice and covers more than 23,000 companies in more than a hundred countries. Its assessments are used by institutional investors managing total assets in excess of USD 20,000 billion. It can supply consistent assessments throughout all the countries represented in the fund. Nevertheless, our portfolio manager has the right to deviate from those recommendations should he find that the companies' business models and particularities are not fully taken into account and the recommendations do not correspond to our updated voting guidelines. In the guidelines, we divide the items under discussion at an AGM into four topics: the structure of the board of directors; the transparency and coherency of the remuneration policy; capital structure and distribution; and respect for the rights of long-term shareholders. Our analysis of voting in the 2014 AGM season, presented in chapter 4, is broken down according to that new classification.

Our investment strategy is further distinguished by the continuous dialogue that we seek as a shareholder. The Guilé Funds shareholder engagement is based on the ten principles of the United Nations Global Compact.

Global Compact's 10 principles

HUMAN RIGHTS

1.- support and respect the protection of internationally proclaimed **human rights**

2.- make sure that they are not **complicit** in human rights abuses

LABOR STANDARDS

3.- uphold the **freedom of association** and recognise the right to collective bargaining

4.- eliminate all forms of **forced and compulsory labor**

5.- abolish **child labor**

6.- eliminated **discrimination** in respect of employment and occupation

ENVIRONEMENT

7.- support a **precautionary approach** to environmental challenges

8.- undertake initiatives to promote **greater environmental responsibility**

9.- encourage the development and diffusion of **environmentally friendly technologies**

ANTI-CORRUPTION

10.- work **against corruption** in all its forms, including extortion and bribery

The Global Compact is a unique self-regulatory initiative signed by more than eight thousand companies who strive to align their current operations with ten universally accepted principles in the areas of human rights, international labour standards, environmental standards and the fight against corruption.

The signatory company's sole obligation is to communicate the progress achieved, so that stakeholders are better informed about its challenges.

To ensure that the universal values contained in the ten principles are permanently embedded in and linked to the engagement process, the Fondation Guilé has signed a Memorandum of Understanding with the Global Compact. In this way, the Fondation also acts as a catalyst by helping businesses to implement the principles. The dialogue is established and maintained by means of a four-step process, illustrated below.

A team of qualified analysts and senior consultants, the Guilé Engagement Team (GET), begins by assessing the comprehensiveness and quality of all the information published on the ten Global Compact principles. The GET forwards its assessments to the fund management team, to have the latter validate, first, the improvements and shortcomings noted, and second, the financially material issues that will be addressed with the company. That decision is always taken jointly by the two teams. Once the assessment is validated (COP - Communication On Progress - Analysis) and completed by the compartment manager, a summarised version (Assessment Results) is sent to the companies' highest executive and operational bodies. This document focuses their attention on their company's strengths and weaknesses and not on occasionally abstract ESG ratings. We are convinced that the awarding of marks, which are rarely accepted as they stand, leads to long and fruitless discussions. In contrast, the critical, neutral assessment by the GET arouses the companies' interest. It opens the way to a constructive ongoing dialogue in which our experts may suggest concrete improvements and monitor their implementation. For key decision-makers (CEO, CFO, and chairman) and senior managers in charge of social responsibility we offer the rare opportunity of getting together with the GET experts and the portfolio managers for an integrated dialogue in which the ESG issues confront the financial reality. We begin by commenting on the results of our assessment, and then explore together the most realistic and financially material paths to progress. The partnership formed in 1996 between the Fondation Guilé and the Global Compact in New York has done a great deal to accelerate awareness and acceptance of the Fondation's shareholder dialogue. The quantity and quality of the influential dialogues conducted since then are attributable to the specific features of the Guilé Funds.

The quality of the dialogue is also enriched by our ability to distinguish between the comprehensiveness and the quality of the companies' extra-financial reporting. The comprehensiveness analysis is carried out for each of the ten Global Compact principles according to the following eight criteria.

Comprehensiveness analysis: eight criteria to analyse the implementation of each of the ten principles

1) How does the company describe the **importance** of the principle
   - *the impact of this principle on its activities and performance throughout its value chain*
2) To what extent does the company express **commitment** to the principle
   - *explicit and practical undertaking to treat the principle as a responsibility and priority*
3) How does the company integrate the principle into its **strategy**
   - *its practical integration into the company's strategy and processes*
4) Are the **objectives** clearly defined
   - *how does the company transform its engagement into tangible objectives*
5) Are the necessary **measures** properly described
   - *are the actions ensuring proper integration into the company's day-to day- activities*
6) What performance-measurement **indicators** has the company identified
   - *relevant, reliable, ascertainable, comparable*
7) Is the **control** system in place
   - *Surveillance and audit procedures as well as corrective actions*
8) What is the **impact** of the measures taken
   - *results, performance, successes or failures*

By contrast, the analysis of information quality covers all ten principles and seeks rather to determine whether the information published is sufficiently credible and accessible and is likely to be taken into account by the financial markets.

This formal distinction between the comprehensiveness and the quality of the information enables us to focus the company's attention on the questions of materiality and content when one of the key Global Compact principles has not been properly addressed. On the other hand, when the ESG risks and opportunities appear to have been well managed but the information seems poorly communicated or inaccessible to investors, the experts from the Fondation Guilé focus the dialogue on the quality and transparency of the reporting. Companies that publish convincing, comprehensive, high-quality information will probably be able to reduce their risk premium and boost their share price. Successful shareholder engagements should therefore be of direct benefit to the Guilé Funds' investors.

Quality analysis: six criteria to assess the quality of the reporting

1) Accessibility (information easy to find)
2) Clarity (information precise and easy to understand)
3) Comparability (year-on-year comparison with competitors)
4) Accuracy (relevance of the collected information)
5) Reliability (confidence in the accuracy of information)
6) Rapidity (consistent frequency)

Management report 2014

Eurozone growth expectations disappointed

In early 2014 most investors were hoping for a continuation or even acceleration of the economic recovery begun in 2013. Initially, those hopes were dashed, with GDP growth remaining sluggish and even raising the spectre of a third recession since the onset of the financial crisis in 2008.

The European Central Bank's pronouncements over the course of year were aimed at countering this lack of dynamism and suggested the prospect of even more massive loosening of monetary policy by the introduction of a quantitative easing programme, which was finally announced in early 2015. The weakening euro, aided by an additional cut in the benchmark rate to near zero and a steep drop in the oil price, bolstered the European economy in the second half of the year.

> The latter part of the year produced increasing macroeconomic signs of a recovery, twelve months later than foreseen (see chart below).

The banking sector pressed on with restructuring, though some of the biggest banks continued to suffer the legal and financial backlash of their business policies prior to 2008. But overall, the banking system strengthened its capital base significantly, and this, together with the appointment of a pan-European regulator as part of the ECB, seemed to bode well for a strong credit revival on a new footing.

The latter part of the year produced increasing macroeconomic signs of a recovery, twelve months later than foreseen (see chart below).

Eurozone PMI

Source: Markit

Evolution of the European equity market

After two years of strong gains, the European markets moderated their uptrend in 2014, ending the year up 6.17 per cent (DJ Europe Stoxx 50 with net dividends).

In spring, the crisis in Ukraine and the Western sanctions against Russia injected new uncertainty into the markets. Although serious in geopolitical and humanitarian terms, these events proved to have little impact on developments in western Europe's markets and economies.

Earnings reported for 2013 and the first half of 2014 were disappointing overall, reflecting the negative impact of the weakness in the US dollar and emerging-market currencies. The economic slowdown in major emerging-market countries such as China and Brazil and further unpleasant surprises in the banking sector also served to produce results below our expectations.

As deflationary pressure mounted in Europe the ECB acknowledged the need to continue easing its monetary policy. This prospect triggered a market rebound.

During the second half of the year, the markets fluctuated between fears of a reversal of the nascent economic recovery, especially in the US, and hopes raised by brighter macroeconomic forecasts. The euro's decline against the US dollar and the steep drop in the oil price had investors expecting an upturn in corporate earnings.

Renewed economic fears in October and the vagueness of the ECB president's statements regarding European QE led to the first significant correction (about 11 per cent) since June 2013. Better-than-expected earnings reports in the US and also, at long last, in Europe, along with the announcement of new QE measures in Japan and the first signs of an improvement in the Eurozone economy all contributed to the revival that followed.

The year ended on a mixed note, with the prospect of new political risks in the Eurozone in the run-up to the Greek elections and the sense that the plummeting oil price mainly reflected a slowdown in the global economy.

European equity index (DJ Stoxx 50) and 12-month forward P/E (Source : Bloomberg)

Management report

Classes A and B of the compartment delivered returns of 1.4 per cent and 2.2 per cent respectively in 2014, thus underperforming the benchmark index (Dow Jones Stoxx 50, net dividends reinvested) which rose 6.2 per cent.

Healthcare stocks were the main drivers of the relative performance. The arrival of new pharmaceutical products after years of weak R&D pipelines boosted Novartis and Novo Nordisk. The other healthcare companies in the portfolio (Essilor International, Fresenius Medical Care and new entrant Coloplast) continued to implement strategies based on particularly robust business models. A few consumer-orientated companies, such as Hennes & Mauritz, Compass Group and Reckitt Benckiser, who again performed in line with our expectations, also contributed to the relative performance.

HEALTHCARE STOCKS WERE THE MAIN DRIVERS OF THE RELATIVE PERFORMANCE.

The lack of a firm economic recovery in 2014 led to an underperformance by the banking, industrial and energy sectors. The banks needed an extra year to bolster their capital base in view of the regulator's constantly increasing demands. Their cost-cutting programmes helped to stabilise the situation, but the absence of a rise in credit volumes prevented any earnings growth. **The industrial companies (ABB, Schneider Electric and SGS) failed to deliver the expected acceleration in turnover, since global growth did not rally as hoped but remained fairly stable. But the weakness in the US dollar and the emerging-market currencies also had a significant impact on the accounts published. The reversal of that trend in the course of 2014 should produce a positive effect in 2015.** Lastly, the collapse in the oil price, which plunged 50 per cent in a matter of months, again calls into question the strategies of the major oil groups in the portfolio (BG Group, BP, Royal Dutch Shell and Total) and their suppliers (Vallourec). Nevertheless, we remain convinced of the solidity of the business models of the companies in the portfolio and expect the valuations to catch up in the coming months.

Outlook

For 2015, we expect slightly stronger growth than in 2014, driven mainly by a eurozone recovery, albeit modest. The European economy is facing many structural and political challenges, not least in Greece, but the European companies in the portfolio are exposed to global growth. The gradual weakening of the euro against the major world currencies will encourage a return to earnings growth after several years of no growth at all. In addition, most of the companies are making further efforts to improve their productivity. This expected return to earnings growth is necessary if the European markets are to continue performing, given the relatively high valuations.

Composition of the portfolio as at 31 December 2014

Sector	GEEF Portfolio as at 31.12.2014
Industrial Goods & Services	ABB
Basic Resources	ARCELORMITTAL
Insurance	AXA
Banks	BBVA
Oil & Gas	BG GROUP
Automobiles & Parts	BMW
Banks	BNP PARIBAS
Oil & Gas	BP
Health Care	COLOPLAST 'B'
Travel & Leisure	COMPASS GROUP
Banks	CREDIT SUISSE GROUP
Food & Beverage	DANONE
Food & Beverage	DIAGEO
Health Care	ESSILOR INTERNATIONAL
Health Care	FRESENIUS MEDICAL CARE
Utilities	GDF SUEZ
Construction & Materials	GEBERIT
Retail	HENNES & MAURITZ 'B'
Construction & Materials	HOLCIM NOM.
Banks	HSBC HOLDINGS
Health Care	INDIVIOR
Chemicals	LINDE
Personal & Household Goods	L'OREAL
Food & Beverage	NESTLE
Health Care	NOVARTIS
Health Care	NOVO NORDISK 'B'
Media	PUBLICIS GROUPE
Personal & Household Goods	RECKITT BENCKISER GROUP
Oil & Gas	ROYAL DUTCH SHELL 'A'
Construction & Materials	SAINT-GOBAIN
Technology	SAP
Industrial Goods & Services	SCHNEIDER ELECTRIC
Insurance	SCOR
Industrial Goods & Services	SGS NOM.
Banks	SOCIETE GENERALE
Banks	STANDARD CHARTERED
Insurance	SWISS RE
Chemicals	SYNGENTA
Telecommunications	TELEFONICA
Oil & Gas	TOTAL
Banks	UBS GROUP
Banks	UNICREDIT
Industrial Goods & Services	VALLOUREC USINES

Exercise of voting rights in 2014

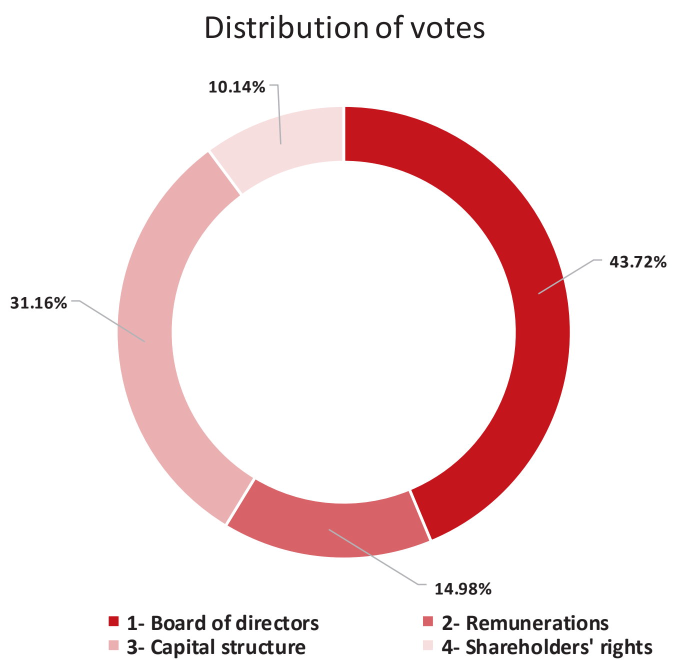
Distribution of votes in 2014

At the end of December 2014, the portfolio of the Cadmos-Guilé European Engagement Fund comprised forty-three companies. One company, Indivior, was not assessed, because the position consists of securities that we received as a shareholder of the Reckitt Benckiser Group following a decision to split up the company taken at the annual general meeting of 11 December 2014. For the remaining forty-two companies we systematically exercised our voting rights. The introduction of a new electronic voting platform ensured that we were able to vote on 100 per cent of the fund's companies.

During the period under review we expressed an opinion on 828 items on AGM agendas, representing an increase of 20 per cent in the voting decisions to be made. This additional workload is directly related to the greater transparency demanded by investors.

The majority of the resolutions submitted to the vote, i.e. almost 75 per cent, concerned the structure of the board of directors and the capital structure.

Votes on remuneration almost doubled, rising from 63 resolutions in 2013 to 124 in 2014 and representing 14.98 per cent of total votes. Even though we had foreseen that development in our 2013 Activity Report, we were surprised by its magnitude and the speed of adjustment shown by the companies in the portfolio. The subject of executive pay is clearly losing some of its media appeal. There are fewer flagrant excesses and most of the outbidding tactics have been curbed. But the issue is still newsworthy and will remain controversial so long as these pay packages are not fully understood by shareholders and the public. Fortunately, the increased transparency that we enjoy today greatly improves our ability to assess the correspondence between the company's performance and the remuneration proposed. This positive development means that our portfolio manager is better equipped to judge whether senior managements' interests are aligned with our own. We encourage the companies to work with two types of capped variable pay. The annual bonus rewards individual performance during the year but must also depend on the company's results. However, we prefer long-term remuneration plans, paid in shares or options, based on demanding performance targets tied to the company's results in the following three years.



Main oppositions in 2014

Of the 828 votes cast, we voted against the boards of directors' recommendations 68 times, i.e. in 8.2 per cent of cases. **The chart below shows that remuneration still represents a major point of contention (19.4 per cent of votes against management recommendations) but was not the only item that caused us concern.**

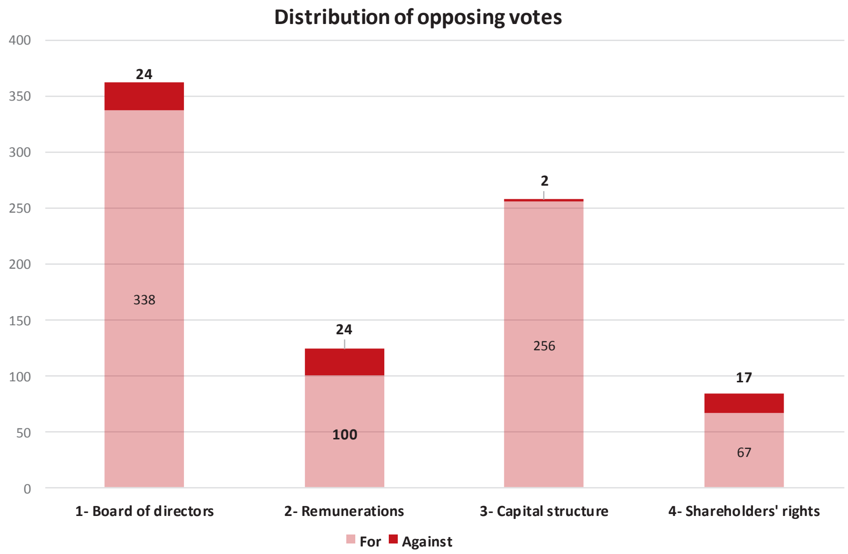
Although this rate of opposition is high, it has declined significantly (48.9 per cent), reflecting a substantial improvement in the transparency and consistency of current remuneration policies. Companies have been quick to adapt and our voting guidelines are clear: "We attach great importance to a transparent, reasonable and well structured remuneration policy that rewards high performance achieved over the long term". In each case, we studied that company's particular situation and decided in accordance with our voting guidelines, in the compartment's long-term interests.

In 2014 our main oppositions (20.2 per cent of our votes against management) concerned non-respect for shareholders' rights.

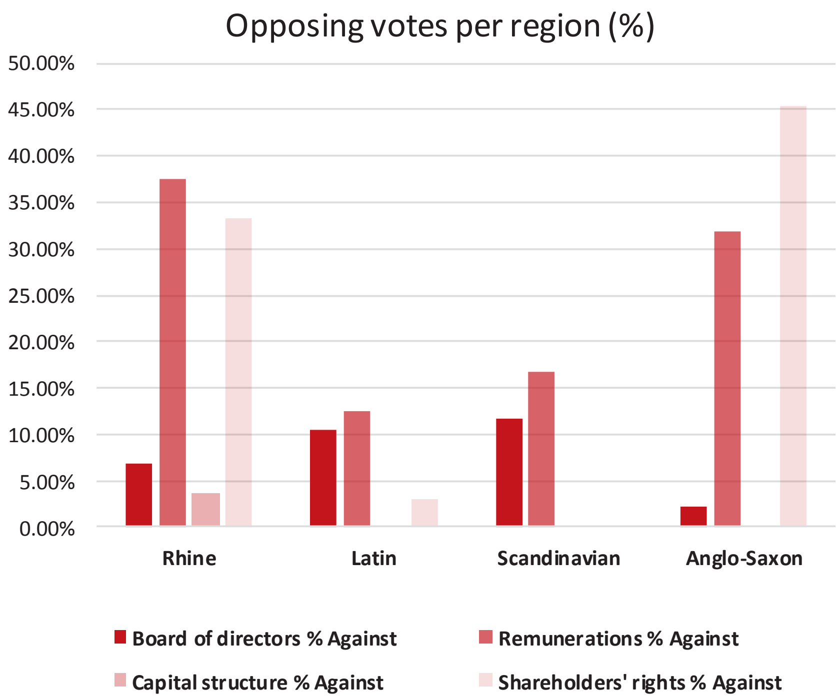
In 2014 our main oppositions (20.2 per cent of our votes against management) concerned non-respect for shareholders' rights.

We group under this theme, which will be addressed in detail in the next chapter, all the resolutions related to equal treatment of shareholders, anti-takeover measures, and statutory changes, particularly those linked to multiple or limited voting rights.

A regional breakdown of opposing votes provides an insight into the characteristics of the different types of European governance model. Even though these figures cover only the companies in the fund and therefore have no statistical significance they can help us to identify each company's controversial issues according to its head office. In addition, this analysis leads to a better understanding of local practices, which are rooted in each region's own economic model and history. That background knowledge also contributes to the open, respectful dialogue championed by the Guilé Funds.



Themes	No. of votes	Against	%
1- Board of directors	362	24	6.6%
2- Remuneration	124	24	19.4%
3- Capital structure	258	2	0.8%
4- Shareholders' rights	84	17	20.2%
Total	828	67	8.1%



Last year, we reported a gradual convergence of the different governance models towards a more balanced hybrid model.

That trend was confirmed this year. Remuneration issues have emerged in all the regions, and oppositions to the structure of the board of directors are levelling out to some extent. Nevertheless, if we exclude the three Scandinavian companies, whose data are statistically insignificant, we still note a higher level of opposition to the election of directors in the Latin countries. In 2014 the French companies were the most severely sanctioned: we opposed the boards in just over one vote in ten. The differences from one region to another were more marked, however, on the matter of shareholders' rights. In the case of UK companies, our rate of opposing votes remained high, at more than 45 per cent. The reasons are basically the same as those mentioned in the previous year. We systematically reject special resolutions proposing a reduction in the period of notice for an AGM. The Swiss companies, assigned to the Rhine region in our chart, generated what might be termed a "half-surprise". Major statutory changes had indeed been expected, and required by law, following approval of the Minder Initiative. The financial crisis has prompted new governance regulations in most European countries and at the European Union level. Although significant differences still exist here and there, the regulators are largely taking their lead from the rules applying in neighbouring countries. The trend to harmonisation of good governance practice is now well established.

ALTHOUGH SIGNIFICANT DIFFERENCES STILL EXIST HERE AND THERE, THE REGULATORS ARE LARGELY TAKING THEIR LEAD FROM THE RULES APPLYING IN NEIGHBOURING COUNTRIES. THE TREND TO HARMONISATION OF GOOD GOVERNANCE PRACTICE IS NOW WELL ESTABLISHED.

Analysis of votes by topic

The first topic addressed in our voting guidelines – **the structure of the board of directors** – is of fundamental importance to a company's development. After the AGM, the board is the highest organ of management, defining the strategy to follow, appointing the senior management that will apply that strategy, and rewarding or sanctioning it according as the objectives are reached. A board of directors must be a cohesive and competent team, available to attend the meetings and able to discuss and evaluate management's performance freely and openly.

The following table lists the seventeen companies where we challenged at least one item on the agenda concerning the board structure.

Vote concerning: Board of directors				
Name	Country	Vote	Against	% Against
BMW	Germany	7	1	14.29%
BNP PARIBAS	France	6	1	16.67%
BP	United Kingdom	14	1	7.14%
COLOPLAST 'B'	Denmark	6	1	16.67%
DANONE	France	10	1	10.00%
DIAGEO	United Kingdom	11	1	9.09%
ESSILOR INTERNATIONAL	France	7	1	14.29%
HENNES & MAURITZ 'B'	Sweden	4	1	25.00%
L'OREAL	France	4	1	25.00%
PUBLICIS GROUPE	France	4	1	25.00%
SAINT-GOBAIN	France	4	1	25.00%
SAP	Germany	11	4	36.36%
SGS NOM.	Switzerland	10	5	50.00%
SWISS RE	Switzerland	17	1	5.88%
TOTAL	France	4	1	25.00%
UBS GROUP	Switzerland	16	1	6.25%
VALLOUREC USINES	France	6	1	16.67%

This table below shows that we were particularly critical of the companies SGS and SAP as regards lack of board independence. In principle, those board members not considered independent are executive members or those that were executive members in recent years, and directors representing a significant shareholder, or engaged in substantial business dealings with the company, or related to a member of senior management or having cross-directorship links with another director. It so happens that Groupe Bruxelles Lambert and the von Finck family, which together hold 29.97 per cent of SGS capital, are represented by six of the nine directors proposed for election to the board. We find that disproportionate and prejudicial to the interests of the remaining shareholders. The Audit Committee, which has convened only three times, has no truly independent members. Similarly, only one representative of the Nomination and Remuneration Committee can really be considered independent.

Many investors protested against this state of affairs. In fact, while the major shareholders hold almost a third of the share capital, more than 20 per cent of the shareholders also signalled their opposition to the election of certain directors.

Our oppositions to the election of four SAP directors also related to the board's lack of independence and the potential conflicts of interest. The following table lists all the disputed items and presents the voting results. The most strongly challenged election was that of Mr Paul Desmarais Jr., who was elected on the basis of only 50.3 per cent of the votes.

Vote concerning: Board of directors		Results	
Name	Description	Vote % For	Our objections
BMW	6.4) Elect Wolfgang Mayrhuber	87.8%	Too many mandates
BNP PARIBAS	0.7) Elect Baudouin Prot	95.6%	Too many mandates
BP	11) Elect George David	96.5%	Lacks the guarantees required to serve on the Audit Committee
COLOPLAST 'B'	5.1) Elect Michael Pram Rasmussen	ND	No Remuneration or Nomination Committee – Chairman rebuked
DANONE	O.14) Severance Agreement (Bernard Hours)	94.7%	2-year period too long
DIAGEO	5.1) Elect HO Kwon Ping	95.5%	Too many mandates
ESSILOR INTERNATIONAL	O.8) Elect Aïcha Mokdahi	89.3%	Lacks the necessary independence for the Audit Committee
HENNES & MAURITZ 'B'	13) Nomination Committee	ND	Chairman of the Board also chairman of the Remuneration Committee
L'OREAL	0.6) Elect Xavier Fontanet	98.3%	Nomination Committee lacks independence
PUBLICIS GROUPE	O.7) Elect Claudine Bienaimé	64.9%	Board's lack of independence
SAINT-GOBAIN	O.5) Elect Pierre-André de Chalendar	86.9%	No separation of Chairman and CEO
SAP	8.2.1) Elect Hasso Plattner	73.7%	Board's lack of independence
	8.2.4) Elect Wilhelm Haarmann	66.9%	Board's lack of independence
	8.2.8) Elect Jim Hagermann Snabe	71.0%	Former co-CEO, lacks independence
	8.2.9) Elect Klaus Wucherer	91.6%	Lacks the guarantees required
SGS NOM.	6.1) Elect Sergio Marchionne as Chairman	75.0%	Too many mandates and board's lack of independence
	6.2) Elect Paul Desmarais, Jr.	74.4%	Too many mandates and board's lack of independence
	6.5) Elect Ian Gallienne Nomination and Remuneration Committee	75.0%	Too many mandates and board's lack of independence
	6.7)Elect Peter Kalantzis	91.6%	Board's lack of independence
	6.8)Elect Gérard Lamarche	69.8%	Too many mandates
SWISS RE	5.1.4) Elect Raymond K.F. Ch'ien	86.7%	Too many mandates
TOTAL	O.7) Elect Paul Desmarais, Jr.	50.3%	Too many mandates –present at fewer than 75% of board meetings
UBS GROUP	3) Ratification of Board and Management Acts	87.3%	Investigations under way
VALLOUREC USINES	O.9) Elect Michel de Fabiani	97.0%	Chairman of the Remuneration Committee –issues not addressed

We have already mentioned **executive pay**, an issue that led us to oppose the recommendations of a third of the AGMs. This represents a major improvement compared with 2013, when we challenged the remuneration proposals of some 70 per cent of the companies in the portfolio. That improvement was expected, owing to the increased transparency, and was announced in our previous report. **Below we present the sixteen companies where we were unable to back all the pay resolutions in 2014.**

Now let us focus on the companies where we challenged at least half the resolutions submitted to the vote. Among those eleven companies, the Swiss are in the majority (ABB, Credit Suisse, SGS and Syngenta). We note that in a Europe-wide comparison, Swiss remuneration tends to be positioned above the average. In addition, probably owing to the transparency introduced by the Minder Initiative, a large portion of that pay package is discretionary and overly focused on the short term. We expressed the same reservations as regards the three UK companies (BG Group, BP and Reckitt Benckiser) and the two French companies (Danone and Scor). Similar issues also prompted us to oppose the remuneration policies put forward by BMW and H&M.

Vote concerning: Remuneration				
Name	Country	Vote	Against	% Against
ABB	Switzerland	2	2	100.00%
BG GROUP	United Kingdom	2	2	100.00%
BMW	Germany	1	1	100.00%
BNP PARIBAS	France	6	1	16.67%
BP	United Kingdom	4	2	50.00%
CREDIT Switzerland GROUP	Switzerland	1	1	100.00%
DANONE	France	4	3	75.00%
ESSILOR INTERNATIONAL	France	3	1	33.33%
HENNES & MAURITZ 'B'	Sweden	2	1	50.00%
PUBLICIS GROUPE	France	6	1	16.67%
RECKITT BENCKISER GROUP	United Kingdom	2	2	100.00%
SCOR	France	5	3	60.00%
SGS NOM.	Switzerland	1	1	100.00%
STANDARD CHARTERED	United Kingdom	3	1	33.33%
SYNGENTA	Switzerland	1	1	100.00%
TELEFONICA	Spain	3	1	33.33%

The table on the following page presents the approval rate for each disputed point and the voting result. **The resolutions that we opposed were also the most controversial, mobilising more than 20 per cent of the dissenting votes.**

Although voices are still being raised against the continuing cases of excessive pay, we note that the latter have become less arbitrary and more likely to be justified by the achievement of longer-term targets. Rare are the governing bodies that take their AGM lightly. The shareholders have clearly won a round. From routine exercises with little at stake and voting results that barely excited comment during the drinks afterwards, the AGMs are developing into meticulously orchestrated meetings where executives and directors are well prepared to face their shareholders. **As a rule, in the case of a company with a diversified shareholding, an opposing vote of 20 per cent or more sends it a signal that is received loud and clear.** In principle, the company is quick to contact its investors and try to strike an acceptable compromise for the next AGM.

The application of quantitative – and often simplistic – golden rules seems to us ill suited to the diversity and complexity of the companies. Our new voting guidelines cite principles of which we either approve or disapprove. Our results show that we punish excesses and grant more flexibility to companies that pay a "sustainable dividend". The latter is a dividend that rewards the long-term investors that we defend through the visibility that it provides as regards the valuation of the underlying security. A company of this type is distinguished by its policy of creating value for, and distributing it to, its shareholders. This added value must also benefit salaried employees, the company (equity) and the community (taxes), to avoid an imbalance that would ultimately penalise the shareholders.

OUR RESULTS SHOW THAT WE PUNISH EXCESSES AND GRANT MORE FLEXIBILITY TO COMPANIES THAT PAY A "SUSTAINABLE DIVIDEND". THE LATTER IS A DIVIDEND THAT REWARDS THE LONG-TERM INVESTORS THAT WE DEFEND THROUGH THE VISIBILITY THAT IT PROVIDES AS REGARDS THE VALUATION OF THE UNDERLYING SECURITY.

Votes concerning: Remunerations		Results	
Name	Description	Vote % For	Our objections
ABB	2) Remuneration Report	51.7%	Discretionary pay too high
	5) Increase in Conditional Capital for Employee Incentive Plans	58.6%	Excessive share capital issuance and dilution
BG GROUP	2) Remuneration Policy (Binding)	67.2%	A single and insufficiently binding performance criterion for long-term pay
	3) Remuneration Report (Advisory)	93.7%	Bonuses disproportionate to financial results
BMW	9) Compensation Policy	ND	Variable pay mainly short-term
BNP PARIBAS	14) Remuneration of Executives	96.0%	Lack of transparency in the main directors' pay
BP	2) Remuneration Report (Advisory)	91.8%	Lack of transparency and the appropriate structure in long-term pay
	19) Executive Directors' Incentive Plan	83.9%	Lack of transparency in the performance targets
CREDIT SUISSE GROUP	3) Compensation Report	81.3%	High pay despite not reaching all the performance targets
DANONE	15) Compensation of Franck Riboud, CEO	93.2%	Lack of transparency in the performance targets
	16) Compensation of Emmanuel Faber, Deputy CEO	92.4%	Lack of transparency in the performance targets
	17) Compensation of Bernard Hours, Deputy CEO	92.4%	Lack of transparency in the performance targets
ESSILOR INTERNATIONAL	11) Remuneration of Hubert Sagnières, Chairman and CEO	93.7%	Variable pay mainly short-term and non-binding
HENNES & MAURITZ 'B'	14) Remuneration Guidelines	ND	Lack of transparency and the appropriate structure in long-term pay
PUBLICIS GROUPE	10) Remuneration of Maurice Lévy, CEO	67.7%	No long-term remuneration plan for the CEO
RECKITT BENCKISER GROUP	2) Remuneration Policy (Binding)	80.2%	Inappropriate structure allowing excessively high pay
	3) Remuneration Report (Advisory)	68.5%	Pay too high relative to the financial results
SCOR	5) Remuneration of Denis Kessler, CEO	ND	Inappropriate structure, and pay too high relative to performance
	23) Authority to Grant Stock Options	ND	Inappropriate structure, and pay too high relative to performance
	24) Authority to Issue Restricted Shares	ND	Inappropriate structure, and pay too high relative to performance
SGS NOM.	2) Remuneration Report	67.6%	Discretionary pay too high and overly focused on the short term
STANDARD CHARTERED	2) Compensation Policy	59.2%	Pay overly focused on the short term
SYNGENTA	1.2) Compensation Report	71.6%	Pay overly focused on the short term
TELEFONICA	9) Remuneration Report	87.7%	Lack of transparency in short-term targets (bonuses)

Our third topic relates to all the AGM resolutions regarding **capital distribution or structure**. We also include in this category the approval of the accounts and election of the auditor. These two subjects are closely linked to the required financial and accounting consistency. While this was the least controversial topic, with only two oppositions to the board's proposals, the financial consequences of each vote are direct and often material. Voting on a capital increase intended for an acquisition or a redistribution of capital requires an excellent understanding of the company, its balance sheet and, above all, its business model. Our portfolio manager's voting recommendations are directly linked to his financial analysis. He, better than anyone else, can express an opinion based on a global vision of the company.

Below are the two companies that received at least one opposing vote regarding their capital structure. Once again we note major oppositions of more than 30 per cent at some AGMs.

Our portfolio manager's voting recommendations are directly linked to his financial analysis. He, better than anyone else, can express an opinion based on a global vision of the company.

The company concerned by at least one negative vote regarding the capital structure is Geberit. This vote does not concern an increase or decrease in the capital but the question of the auditor's independence. Pricewaterhouse Coopers has held this mandate since 1997. Furthermore, the fees paid for non-auditing services exceed those paid for the audit. This raises concerns about the accountants' objectiveness when conducting the audit. It is essential that the external auditor not be indebted to management for remunerative non-auditing mandates. The independence of the auditor and integrity of the company's financial statements could be compromised.

Historically, this is not the first time that we have remarked rather high non-auditing charges at Geberit. Many shareholders have challenged the company on this point, and this year again, only 63.2 per cent approved the election of Pricewaterhouse Coopers

Vote concerning: Capital structure						Results	
Name	Country	Vote	# Against	% Against	Description	Vote % For	Our objections
CREDIT SUISSE GROUP	Switzerland	6	1	16.67%	5) Increase in Conditional Capital	67.7%	Excessive dilution
GEBERIT	Switzerland	3	1	33.33%	6) Appointment of Auditor	63.2%	Excessively high non-audit fees

In the fourth topic, on **shareholders' rights**, we have grouped all the items related to equal treatment of shareholders, anti-takeover measures and statutory changes.

In seven cases, we opposed the item "Transaction of Other Business", which would authorise the vote on a new resolution proposed during the AGM. We thus avoid giving the board a blank cheque and discriminating against shareholders that vote remotely. In addition, we systematically reject the special resolution, put forward by practically all the English companies, proposing that the period of notice for AGMs be reduced from twenty-one to fourteen days. This reduction imposes constraints on shareholders that wish to be well prepared for the AGM, that seek information beforehand and that cast their vote remotely using electronic tools.

Vote concerning: Shareholders' rights				
Name	**Country**	**Vote**	**Against**	**% Against**
ABB	Switzerland	3	1	33.33%
BG GROUP	United Kingdom	2	1	50.00%
BP	United Kingdom	1	1	100.00%
CREDIT SUISSE GROUP	Switzerland	3	2	66.67%
GDF SUEZ	France	3	1	33.33%
GEBERIT	Switzerland	4	1	25.00%
HOLCIM Name.	Switzerland	2	1	50.00%
HSBC HOLDINGS	United Kingdom	1	1	100.00%
NESTLE	Switzerland	5	1	20.00%
RECKITT BENCKISER GROU	United Kingdom	2	1	50.00%
STANDARD CHARTERED	United Kingdom	2	1	50.00%
SWISS RE	Switzerland	3	2	66.67%
SYNGENTA	Switzerland	3	1	33.33%
UBS GROUP	Switzerland	3	2	66.67%

A particularly large number of Swiss companies were challenged this year on the subject of shareholders' rights. Indeed the ordinance against excessive remuneration in Swiss listed companies (ORAB), which entered into force on 1 January 2014, calls for significant statutory amendments. To their credit, the Swiss companies have made every effort to comply rapidly with the requirements. In the case of four companies (Credit Suisse, Nestlé, Swiss Re and UBS) we decided not to back the statutory changes proposed. In our view the changes ran counter to the shareholders' interests. They also provided for a second vote to be held during the same AGM in the event of a negative vote on remuneration. **This provision does not allow shareholders voting by correspondence or electronic means to take part in the second vote. The shareholders' rights are therefore too severely limited.** Except in the case of UBS, this vote received relatively little opposition at the time. Subsequently, several provisions, some of them controversial, that would restrict the companies' room for manoeuvre have been inserted into the draft amendment to Swiss law on companies limited by shares.

Vote concening: Shareholders' rights		Results	
Name	**Description**	**Vote % For**	**Our objections**
ABB	11) Transaction of Other Business	ND	No blank cheques
BG GROUP	24) Authority to Set General Meeting Notice Period at 14 Days	88.6%	Restriction of shareholders' rights
BP	24) Authority to Set General Meeting Notice Period at 14 Days	86.8%	Restriction of shareholders' rights
CREDIT SUISSE GROUP	4) Amendments to Articles (Relating to VegüV)	94.0%	2nd vote possible if remuneration refused – restriction of rights
	7) Transaction of Other Business	ND	No blank cheques
GDF SUEZ	E22) Amendment to Article Regarding Loyalty Dividends	77.0%	Creates inequality among shareholders
GEBERIT	8) Transaction of Other Business	ND	No blank cheques
HOLCIM NOM.	5) Transaction of Other Business	ND	No blank cheques
HSBC HOLDINGS	14) Authority to Set General Meeting Notice Period at 14 Days	88.6%	Restriction of shareholders' rights
NESTLE	4) Amendments to Articles	89.7%	2nd vote possible if remuneration refused – restriction of rights
RECKITT BENCKISER GROUP	20) Authority to Set General Meeting Notice Period at 14 Days	89.0%	Restriction of shareholders' rights
STANDARD CHARTERED	33) Authority to Set General Meeting Notice Period at 14 Days	91.5%	Restriction of shareholders' rights
SWISS RE	6) Amendments to Articles Relating to VegüV	93.7%	2nd vote possible if remuneration refused – restriction of rights
	7) Transaction of Other Business	ND	No blank cheques
SYNGENTA	11) Transaction of Other Business	ND	No blank cheques
UBS GROUP	4) Amendments to Articles Relating to VegüV	73.4%	2nd vote possible if remuneration refused – restriction of rights
	7) Transaction of Other Business	28.3%	No blank cheques

Shareholder engagement 2014 – 2015

RATE OF ENGAGEMENT

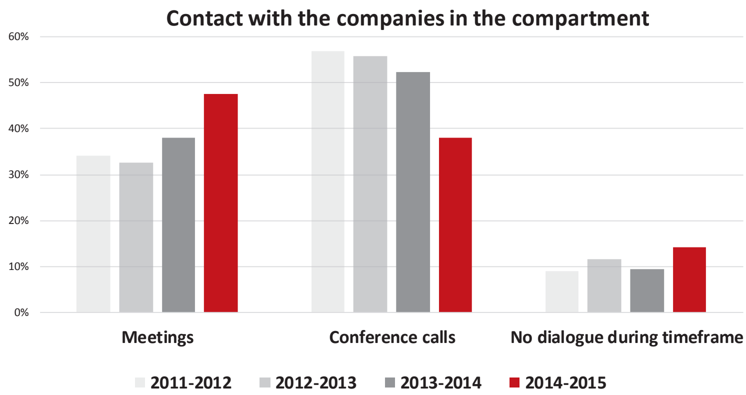
As outlined in the introduction, the GET was able to hold discussions with thirty-six of the forty-two companies in the portfolio, representing an engagement rate of more than 85 per cent. This was achieved despite the fact that three of the companies in the compartment are not signatories to the Global Compact. It is gratifying to see that this success rate exceeds those of other investors who conduct a dialogue based mainly on intimidation. In addition, this year we managed to increase the proportion of face-to-face meetings relative to conference calls. For the first time since the launch of the GEEF we conducted more face-to-face meetings than we did conference calls. It is helpful to be able to get together regularly. This option required a very slight reduction in the total number of meetings, which declined by two companies. The strategy paid off: the GET succeeded in re-establishing the dialogue with the four companies that we had been unable to contact in 2013. And we visited three of those four on their home ground. These remarkable and stable results, shown in the chart below, testify to the credibility that the Guilé Funds have acquired in the eyes of the European companies.

FOR THE FIRST TIME SINCE THE LAUNCH OF THE GEEF WE CONDUCTED MORE FACE-TO-FACE MEETINGS THAN WE DID CONFERENCE CALLS.

Axa, Saint Gobain, Reckitt Benckiser and Holcim are the four companies with whom we were able to re-establish the dialogue in 2014. Reckitt Benckiser is the only one that we were unable to visit on its own premises. Nevertheless, our conference call allowed us to address the weak points, such as the fight against corruption and the fact that this company is not yet a signatory to the Global Compact.

As indicated above, these achievements required that we postpone the dialogue with six companies this year. They are BBVA, BMW, Diageo, HSBC, SCOR and Unicredit. Over the past five years, we have conducted a dialogue with each of these companies at least three times, and they have all approved the progress targets defined by the GET. We shall probably resume the conversation with them next year.

More and more companies now contact the Fondation Guilé on their own initiative to pursue the previous years' discussion. They are speaking out publicly about their desire for a healthy dialogue with their stakeholders. But they are also increasingly critical of over-simplified exclusion criteria and the ratings and other ESG classifications that are often compiled once a year based on laborious questionnaires. **The Guilé Funds' "soft power" engagement is clearly conducive to a dialogue that is both influential and constantly constructive.**



Effectiveness of the engagement

Companies	Level	Description
0	(6)	(Publicizes Guilé's recommendations)
24	5	Shows improvement on at least one weak point raised by Guilé
16	4	Approves the progress objectives clearly specified by the Guilé assessment
1	3	Displays awareness and accepts the principle of a regular (annual) dialogue
1	2	Agrees to a detailed discussion about our assessment
0	1	Acknowledges receipt of our assessment

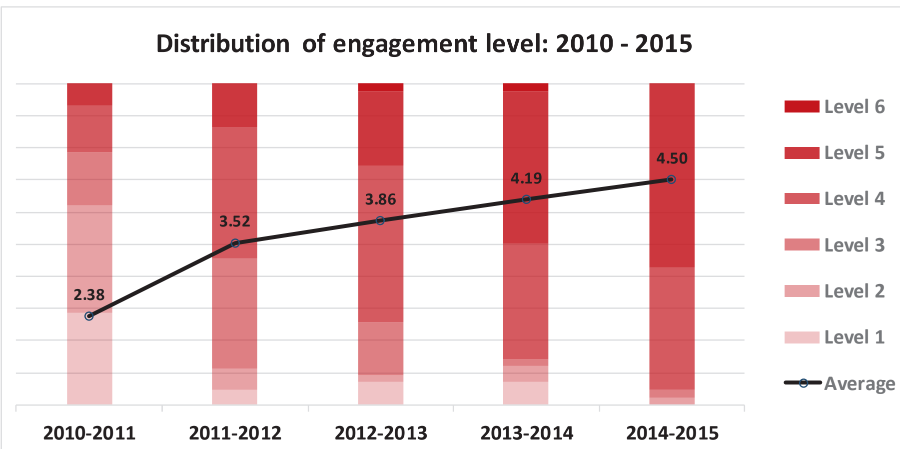
Although the dialogue must maintain a certain rate of engagement to be influential, that ratio does not suffice to judge its effect. With that in mind, the Fondation Guilé has developed a scale of six levels, designed to provide a transparent measure of the extra-financial impact of the engagement with the companies.

The effectiveness targets set for the Guilé Funds are ambitious. **We want to create a continuing dialogue with all the companies, so that we reach at least level 3. This first goal has been reached with all the companies except Coloplast, which has only just entered the portfolio.** All forty-one companies respond regularly to the GET's approaches. The second goal is to demonstrate that year on year we are increasing the proportion of companies that have reached levels 4 and 5, and that they agree with the clearly defined progress objectives and are showing improvement on at least one of the weak points raised by the GET. We have met this goal in the case of all the companies in the compartment except Coloplast (first year in the portfolio) and GDF Suez, with whom we have had two meetings. This year, four people joined us for the dialogue, but we struggled to achieve an open, objective discussion of the challenges that they face.

> This first goal has been reached with all the companies except Coloplast, which has only just entered the portfolio.

This means of measuring the extra-financial impact corresponds to our measurement of the compartment's financial performance. By continuing to demonstrate that this dual performance can be delivered, the Buy & Care strategy will become established as a true alternative. The graph below charts the results of the level of engagement since 2010 and shows that it was indeed possible to improve the effectiveness significantly. **While in 2010, 20 per cent of the companies had reached level 4, today 95 per cent engage regularly in the dialogue and approve the progress targets suggested by the Guilé Engagement Team.**

This evolution can be quantified by tracking the average level of engagement over time. Today the average stands at 4.5, whereas it was only 2.38 four years ago.



On 20 May 2014 we invited the company Novo Nordisk to Geneva to present the tangible impact of credible shareholder engagement to an audience of institutional investors. This Danish company, a world leader in insulin products, has been in the Cadmos-Guilé European Engagement Fund since 2009.

After four discussions with the company since its entry into the portfolio, we were delighted to welcome Susanne Stormer (Novo Nordisk Vice President Corporate Sustainability), who spoke to us about the tangible impact of shareholder engagement as applied in the Guilé Funds' Buy & Care investment strategy. Ms Stormer highlighted the integration of the sustainability issues into Novo Nordisk's current business with a view to their impact on financial performance following the ESG materiality analysis.

We also wish to single out the oil company Total. Last year, we mentioned the lack of transparency noted in the collection, assembly and validation of the ESG data that the company published. This weighed on our assessment of the quality of the information provided. Total's performance on the "accuracy" criterion, in particular, was not worthy of our highest score. Nevertheless, our global assessment of the quality of Total's report remained above the average for the portfolio. But the GET's remark was taken seriously and was followed up by Total's corporate responsibility representative. Total has now corrected that flaw, and the quality of its report may serve as an example to all the companies, regardless of industry sector. The four senior company representatives whom we met at the Paris headquarters welcomed this positive assessment. And the transparency that they brought to our meeting, particularly on the subject of the difficulties encountered in implementing their Code of Conduct among the suppliers, enriched our understanding. The great challenge lies in ensuring that suppliers are willing and able to respect and protect human rights. To do so, the company has set up an innovative committee charged with human-rights coordination. **The representatives were delighted with our feedback and said that they would like to have a GET expert work with them on developing key indicators, in order to monitor the results of their social and environmental actions.**

ON 20 MAY 2014 WE INVITED THE COMPANY NOVO NORDISK TO GENEVA TO PRESENT THE TANGIBLE IMPACT OF CREDIBLE SHAREHOLDER ENGAGEMENT TO AN AUDIENCE OF INSTITUTIONAL INVESTORS.

BMW, whom we met for the fourth time, excels in implementing the Global Compact's three main environmental principles: a precautionary approach, environmental responsibility and environmentally friendly technology. **Its rating is among the best, since with the "BMW i" series it has produced a compelling sustainable business model.** To foster a spirit of entrepreneurial, social and environmental innovation the company decided to manage this vehicle line autonomously, in a departure from the usual manufacturing and marketing methods. Its precise and comprehensive ESG report sets a very high standard for other carmakers.

Lastly, we wish to mention Danone's promotion of respect for human rights, which is also of exemplary quality. But the underlying policy from 2009 needed to be revised to correct some contradictions in relation to the "Danone Way" and "Respect" programmes. Danone confirmed that it had noticed that weakness and would correct it, along with the excessively high level of decentralised responsibilities. These changes will, it believes, allow for better management of the reputational risk. Everyone present, both the investor-relations representatives and those in charge of corporate social responsibility, said that our visit was perfectly timed, since the company was about to review those same weak points. **The CSR managers are preparing to publish Danone's first integrated report in 2015. At the end of the meeting, they asked the GET experts to appraise the draft document.** This request testifies to the relations of trust that we are sometimes able to build, thanks to the combined strengths of our status as long-term active investors and the GET's expertise.

In this way, as a responsible shareholder, we encourage most of the companies in our fund to give greater consideration to the tangible financial risks of inaction, negligence or even unlawful behaviour. The companies are often aware of their challenges or ready to consent to certain adjustments, particularly as these are proposed by a loyal investor.

Long-term results

A number of recent studies and surveys indicate that engagement and integration are the strategies that institutional investors interested in SRI find most convincing and request most frequently.[7] Even if those findings plead in our favour, caution should be exercised, as the surveys that attempt to estimate the proportion of ISR investments produce figures ranging from a few per cent to 25 per cent. Their divergence is explained, first, by the different definitions of SRI, some of which are broader than others. If we screen out the strategies that simply exclude controversial industries or whose only ESG characteristic is the exercise of voting rights, the proportion does seem to be closer to 4 per cent. A recent Eurosif publication nevertheless confirms that in Europe, the global distribution between private investors and institutional investors has swung towards the latter, who represent 96.6 per cent of the market.[8] Switzerland, with its joint expertise in private banking and SRI, is the European country with the most balanced distribution: private investors now hold 41 per cent of SRI assets. Its status as leader and pioneer of SRI was established in the 1990s, when large institutional investors pushed for this innovation. Since then, Switzerland's biggest neighbours have made up for lost time. Today, major international institutional investors are seizing the lead and implementing investment strategies that integrate environmental, social and governance risks. Indeed, some of them have opted for the PPT Buy & Care® strategy. We are confident that shareholder engagement will also take hold in Switzerland and give rise to a new generation 2.0 of responsible investors that have never really been satisfied with the exclusion criteria or the best-in-class funds.

We are confident that shareholder engagement will also take hold in Switzerland and give rise to a new generation 2.0 of responsible investors that have never really been satisfied with the exclusion criteria or the best-in-class funds.

This confidence is underpinned by the positive developments in the portfolio's companies in relation to the ten principles of the Global Compact. While we cannot prove that this improvement translates into better performance that is what we are observing. Responsible companies are more successful at protecting their competitive edge, tend to gain more market share and find it easier to access new markets. Some studies also show that high ESG quality reduces their risk and their cost of capital.[9] By winning the loyalty of their customers and most talented employees these companies can compensate for the capital invested and even increase their margin. They seem to be better equipped to meet their shareholders' expectations, while also responding to society's increasing demands.

The stability of the analytical methodology developed by the Fondation Guilé guarantees the homogeneity of the measurements over time. **The stable track record since 2006 enables us to select eighteen companies – almost half the companies in the compartment – and follow their evolution over a period of eight years.**[10]

We observe a continuous overall progression. Each of the eighteen companies has advanced each year. **This general progress of around 8 per cent a year appears in relation to all ten principles of the Global Compact. It reveals the added value created by the Cadmos-Guilé European Engagement Fund.** The improvement in ESG performance indicates, first, that the company is generating more value for all its stakeholders and therefore for society. But it also signals that the portfolio is exposed to fewer non-financial risks. In principle, when the markets become aware of this progression, a corresponding contraction in the risk premium will register directly in the share price, to the benefit of existing shareholders.

Implementation of the "Complicity" and "Freedom of association" principles has advanced more than 100 per cent since 2006. Businesses have realised that reputation pays little heed to legal distinctions and national borders. The progress seen, particularly on

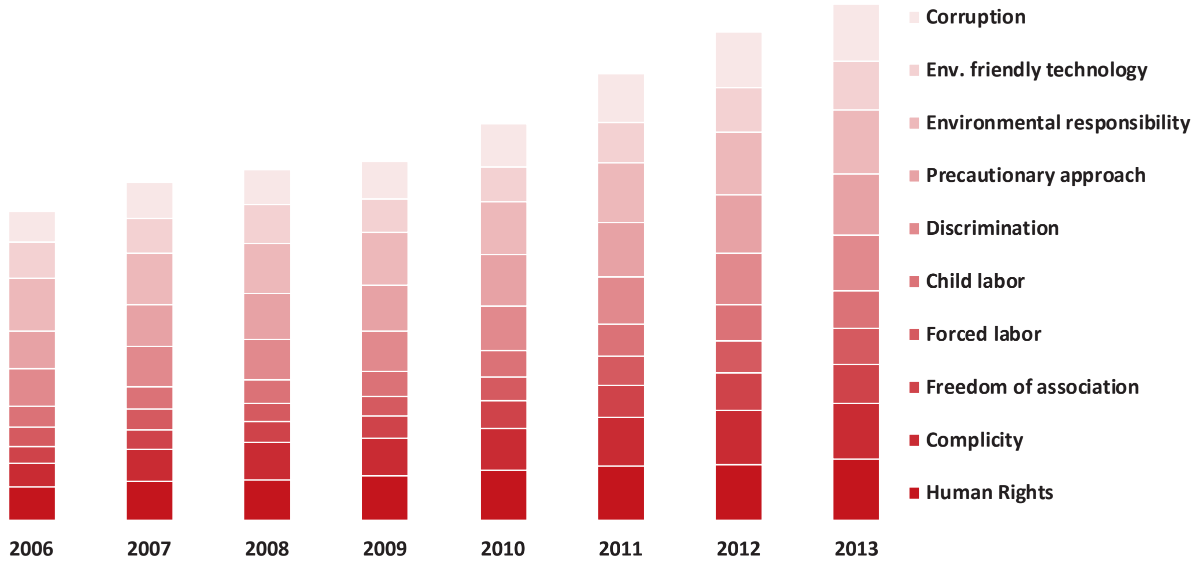
[7] *Survey by Voxia communication and Conser presented at the Geneva Forum for Sustainable Investment 2014.*

[8] *Eurosif: European SRI Study 2014.*

[9] *Cheng, Beiting, Ioannis Ioannou, and George Serafeim.»Corporate Social Responsibility and Access to Finance.»; Harvard Business Review, 2011.*

[10] *ABB, AXA, BP, Credit Suisse, Essilor, GDF Suez, Danone, Heineken, H&M, Holcim, HSBC, Nestlé, Novartis, Royal Dutch Shell, Société Générale, Standard Chartered, Total and UBS.*

Trend in the quality of the ten Global Compact principles



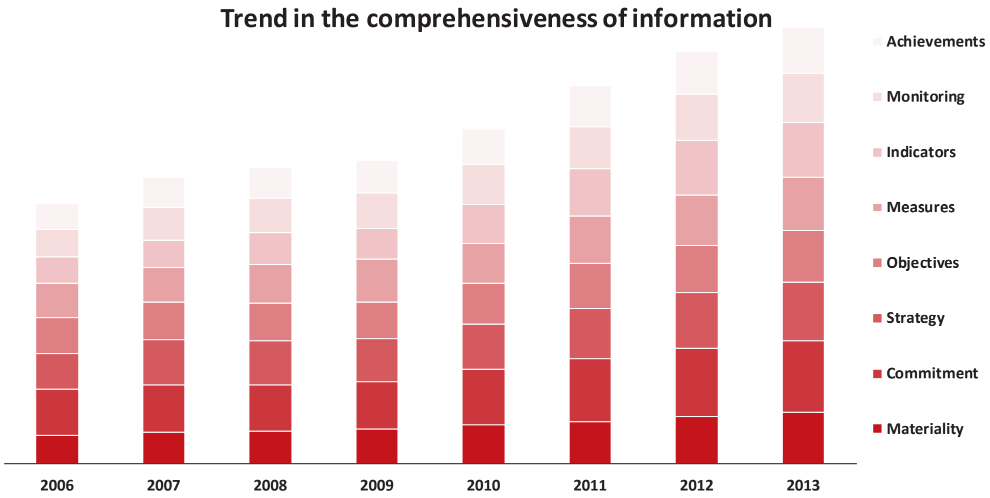
the "Complicity" principle, is therefore related to the integration of suppliers and other members of the value chain into the companies' social responsibility policies.

Performance on the "Human rights", "Forced labour" and "Corruption" principles has also made great strides of between 80 per cent and 100 per cent during the same period. The average improvement on all ten principles now stands at 68 per cent. This trend cannot be credited solely to the influence of the Guilé Funds but rather to all the participants everywhere that are working to create a more sustainable world. In addition, businesses have understood that managing opacity has become more difficult. The increased transparency that we enjoy today, aided by the Internet, rarely leaves abuses unpunished. Yet it is not possible to assert that businesses emit 68 per cent less carbon dioxide or that they now employ only a third as many children as eight years ago. These figures do not claim to quantify, much less praise, the concrete progress that the companies have achieved. But they do reflect in concrete terms a clear increase in awareness of the need to provide quality information on the ESG issues. This awareness and this transparency are the first essential step, prior to assessing the quality of the structures in place.

> THESE FIGURES DO NOT CLAIM TO QUANTIFY, MUCH LESS PRAISE, THE CONCRETE PROGRESS THAT THE COMPANIES HAVE ACHIEVED. BUT THEY DO REFLECT IN CONCRETE TERMS A CLEAR INCREASE IN AWARENESS OF THE NEED TO PROVIDE QUALITY INFORMATION ON THE ESG ISSUES.

That is what we try to analyse with the eight comprehensiveness criteria, which allow us to measure the quality of implementation of the ten Global Compact principles.[11] Not surprisingly, the overall progress is the same as for the ten principles, that is, 8 per cent a year.

[11] *See chapter 2.3.*

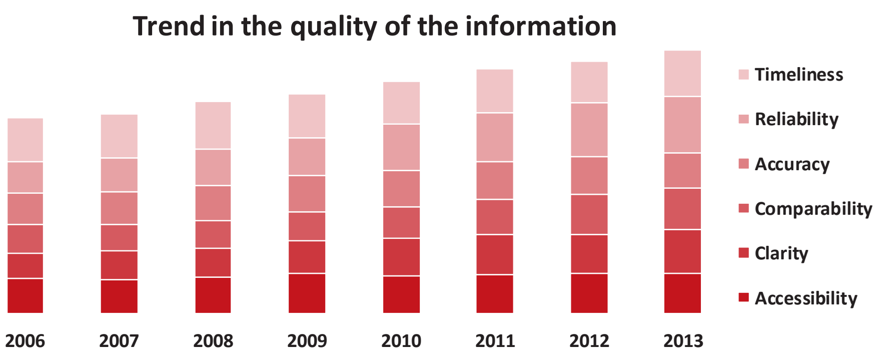


The chart above shows that the implementation has moved in tandem with the transparency. We note an increasing professionalism in the way the companies implement their social responsibility. The most striking improvements appear both upstream and downstream of the eight-step management process.

The companies have understood. They are now far more adept at describing the importance and materiality (+81 per cent) of each principle ir relation to their business model The next criteria on the chart: definition of consistent strategies and tangible targets, and publication of explicit commitments from senior management, were already established practice in 2006 and even then obtained the best scores. To improve their estimation of the ESG and financial impacts of their activities the companies have increased the relevance of their performance indicators. In fact, it is in this area that we note the most significant progress (+110 per cent).

> THE MOST STRIKING IMPROVEMENTS APPEAR BOTH UPSTREAM AND DOWNSTREAM OF THE EIGHT-STEP MANAGEMENT PROCESS.

We also observe a gratifying uptrend in the quality of the ESG information (see the chart below). Particular progress is noted in the clarity, comparability and reliability of the data published. In those three areas, and since 2006, the improvements range between 40 per cent and 80 per cent



The increased reliability is explained primarily by the growing number of companies that appoint authorised independent third parties to validate or certify their ESG reports. For the past twenty years, considerable sums have been invested in improving businesses' ability to communicate their ESG qualities to investors and stakeholders. But this effort can prove counterproductive if the communication is not fit for the purpose. The feedback provided by the GET is highly valued by the companies, who tell us that we are still one of the very few investors to analyse their ESG communication in detail. At the same time, we help them to target their investor and stakeholder audiences whose needs are relatively divergent. It is not uncommon for us to recommend that they summarise the information and incorporate it into an integrated financial report. The link between improvements in the effectiveness and quality of the companies' ESG approach and their financial ratios is only partially established. The reduction in waste, energy consumption, emissions, technical problems, accidents and lawsuits may have a direct and sometimes major impact not only on a company's reputation but on its operating margin. A recent CDP study of the main electricity providers in Europe reveals a dramatic heterogeneity among the different players.[12] The carbon intensity as measured by CO2 emissions according to electricity production can vary by a factor of seven. Similarly, the impact on margins (EBIT) of an increase of one euro in the price of carbon will be twenty-five times less significant for companies with a diversified energy mix that favours renewable sources. **We encourage businesses that are well positioned and take good decisions in these areas to demonstrate the links to tangible improvements in their competitive advantages and their financial results, including their risk management. To spark a response from the financial markets, this communication must be targeted and succinct. In addition we have a direct interest in fostering broad awareness of the fundamental qualities of the companies in which we invest. This awareness is conducive to an increase in the share price and the Guilé Funds' investors are the primary beneficiaries.**

> The feedback provided by the GET is highly valued by the companies, who tell us that we are still one of the very few investors to analyse their ESG communication in detail.

[12] *Magness, Chan and Fruitiere, "Flicking the switch", CDP, 2015.*

Confidential report

The assessments of the underlying companies presented in the following pages were compiled by the Fondation Guilé. They provide an account of the dialogue conducted, on behalf of the Guilé Funds, with each company in the portfolio as at 31 March 2015.

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