de Pury Pictet Turrettini & Cie SA

CADMOS-GUILÉ SWISS 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

The "Cadmos-Guilé Swiss Engagement Fund" (GSEF), launched in 2014, is celebrating its first year of activity. On this occasion, de Pury Pictet Turrettini & Cie S.A. (PPT) is publishing the first activity report, whose results testify to the long experience of all the stakeholders. PPT, promoter of the Guilé Funds, is also in charge of coordination and implementation of the Buy & Care strategy. Since 2006, this strategy has been demonstrating that profitability and responsibility can be reconciled. The team responsible for portfolio management and fundamental analysis is the keystone of this investment style and largely explains its success. Alexandre Stucki and Nathalie Kappeler each possesses more than twenty years' investment experience, including over ten years dedicated to the Swiss market. This advantage, combined with sound fundamental analysis, a disciplined management process and a keen understanding of corporate business models (see chapter 2.1) has enabled the team, Alexandre Stucki Investment Management (ASIM), to build an efficient portfolio in a short space of time.

The Fondation Guilé, in its capacity as advisor to the Guilé Funds since their launch, organises, coordinates and maintains an on-going dialogue with the governing bodies of all the companies in which we invest. The expertise of the Guilé Engagement Team (GET) enabled us to establish a quality dialogue with twenty-one companies and to make nineteen on-site visits. The privileged partnership established with the United Nations Global Compact guarantees the credibility of the Fondation Guilé and its corporate assessment methodology. Details are provided in chapter 2.3.

The shareholder engagement with the underlying companies represents a key distinguishing feature of our Buy & Care strategy as applied to the Guilé Funds. Through the 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.

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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. Owing to the fact that the GSEF was launched in the midst of the AGM season, we could not implement the necessary procedures. The detailed voting results in chapter 4 therefore concern only the companies also held in the European compartment.

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 GSEF companies, with details of the assessment and dialogue conducted by the Guilé Fund's experts. This report naturally places the emphasis on those voting and engagement activities where the performance calls for a more qualitative discussion. The complete report 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 first Activity Report, for 2014–2015.

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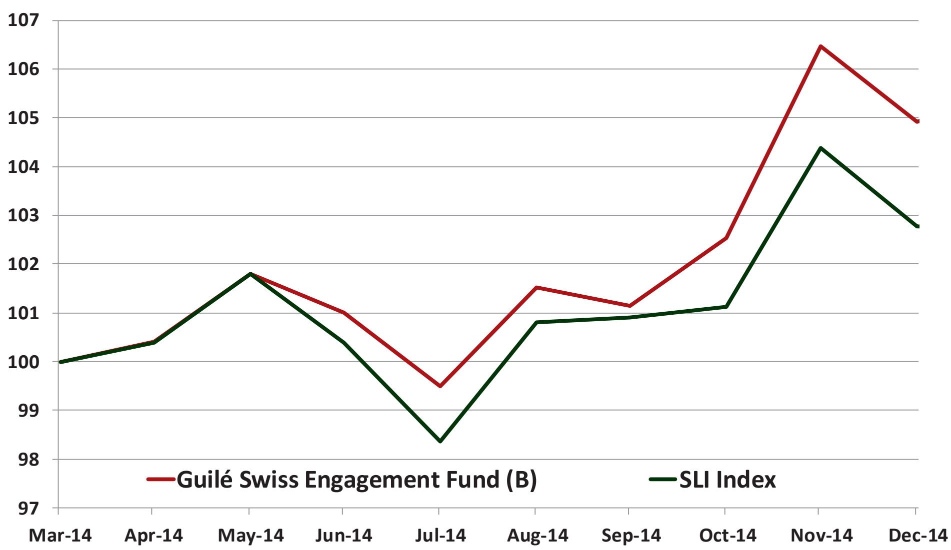
Summary of results in 2014–2015

Financial performance

Le Cadmos-Guilé Swiss Engagement Fund (GSEF), managed by Alexandre Stucki Investment Management (ASIM) and promoted by PPT, is a compartment of the Luxembourg-based umbrella fund Cadmos Fund Management (Guilé Funds). Alexandre Stucki, founder of ASIM, has managed the GSEF since its inception in early April 2014. **Over the nine remaining months of the year, classes A and B of the compartment returned 3.8 per cent and 4.9 per cent respectively, outperforming the benchmark index (Swiss Leader Index) which finished the year up 2.8 per cent (see the monthly report for December 2014, Class B, on the following page).** The SLI, comprising the thirty most liquid companies trading on the Swiss equity market, was selected for several reasons. First, it is line with our manager's investment style, which favours large- and mid-cap companies. Similarly to the SLI, Alexandre Stucki's portfolios focus on a limited number of stocks. The SLI also presents the advantage of capping the weightings of the largest Swiss companies by capitalisation at 9 per cent each. This results in better diversification, enabling the active manager to limit the impacts of Nestlé, Novartis and Roche. Lastly, the SLI is the only index to comply with Swiss, European and US regulations. The Guilé Funds, which are governed by European law, also require the use of this index.

Many vectors contributed to the fund's performance. 2014 was a stellar year for pharmaceutical companies. Roche and Novartis published strong results throughout the year and their pipelines are full. Food companies also had a fine 2014, as exemplified by the food giant Nestlé. The smaller companies Lindt & Sprüngli and Emmi forged ahead with their growth and particularly their expansion in the US market. Investors sought companies paying high dividends, such as the insurers Zurich Insurance, Helvetia, Swiss Life and Swiss Re, who announced robust earnings. Givaudan enjoyed an exceptional year with good results all the way. This specialist in flavours and fragrances is gaining market shares, improving its profitability and increasing its presence in the emerging-market countries. Geberit also delivered a strong performance, particularly through steady margin growth.

The Swiss equity market continued its uptrend for the third year in a row, albeit at a more modest pace than in previous years. The moderation was largely due to the timidity of the global economic recovery. Nevertheless, the markets were bolstered by the expansionary monetary policies maintained by the central banks, particularly the European Central Bank, and the historically low interest rates. Even if rates were to rise gradually in 2015, high-dividend companies should continue to find favour with investors. By contrast, following the abandonment of the CHF/EUR currency floor, businesses with a high exposure to sales in the Eurozone and a high Swiss-franc cost base may suffer.



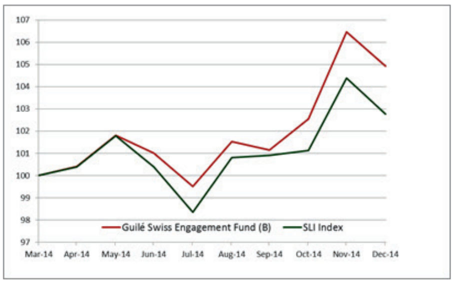
GUILÉ SWISS ENGAGEMENT FUND – CL. B

December 2014

PERFORMANCE (monthly)

PERFORMANCE

	2014	12/14	11/14	10/14	09/14	08/14	Since launch
Fund	**+4.9%**	**-1.5%**	**+3.8%**	**+1.4%**	**-0.4%**	**+2.0%**	**+4.9%**
SLI Index	+2.8%	-1.5%	+3.2%	+0.2%	+0.1%	+2.5%	+2.8%
Difference	+2.1%	+0.1%	+0.6%	+1.2%	-0.5%	-0.5%	+2.1%



MANAGER'S COMMENT

Financial markets lost ground in December. Different reasons explain the decrease: the political uncertainty in Greece with the announcement of anticipated election in January 2015; doubts on worldwide economic growth with disappointing macroeconomic data from China and Europe; the strong devaluation of the ruble and pressure on the Russian economy; the steep decrease of oil price which increase risks of deflation and weights on the economies of oil exporting countries.

The SLI index lost -1.5% during December. The fund had the same performance and also lost -1.5%. After an exceptional year 2014 investors took some profits on healthcare companies. Sika fell sharply after the news that the family Burkard sold its 16% stake, 52% of the voting rights, to Saint-Gobain. The good performance of some stocks in the portfolio, like Givaudan, Zurich and Helvetia, partially compensated those losses.

Alexandre Stucki

INFORMATION

10 TOP HOLDINGS

Novartis	9.6
Nestlé	9.3
Givaudan	8.7
Roche	8.6
Geberit	4.7
UBS	4.5
Zurich Insurance	4.2
Swiss Re	3.7
Syngenta	3.6
Lindt & Sprüngli	3.2

SECTOR ALLOCATION

Healthcare	27.9
Chemicals	17.7
Consumer Staple	16.5
Financials	16.1
Industrials	14.0
Consumer Discretionary	4.1
Telecoms	2.3

QUANT. & STAT. INFORMATION

Fund Size (CHF mios)	27.52
NAV CHF	104.92
Number of holdings	32

INVESTMENT POLICY

- Guilé Swiss 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.

- A significant part 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	LU1045227185
Bloomberg	CFGSEBC LX
Value Number	23884624
Launch date (class A)	01.04.2014
Benchmark	SLI Price Index
Fund Manager	Alexandre Stucki IM
Custodian	Pictet & Cie (Europe) SA
Fund Type, reg.	SICAV - UCITS IV
Dealing	Daily
Distribution	None, accumulation
Management fee	0.75%

Voting performance

As mentioned in the introduction to this report, it was not possible to exercise the compartment's voting rights for 2014, since the launch period coincided with the season of annual general meetings. However, to illustrate our practice, we present below our voting positions for the seven Swiss stocks held by the European compartment, which cast its votes, and also held by the GSEF. The underlying guidelines are the same and the two managers coordinate their vote. During the period under review we expressed an opinion on 158 items on AGM agendas, representing an increase of almost 100 per cent in the number of voting decisions. This additional workload is directly related to investors' demands for greater transparency. The votes on remuneration increased 50 per cent, rising from six resolutions in 2013 to nine in 2014.

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As in 2013, so in 2014 the AGM season was marked by the debate on excessive executive pay. We had foreseen that the effects of the Minder Initiative and the increased transparency required would begin to be felt during the 2014 AGM season. This year, we opposed 22.2 per cent of pay-related items on the agenda. High though this rate may be, it has declined significantly (63.5 per cent), reflecting a marked improvement 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".

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, the 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 seventeen of the 158 votes cast (10.8 per cent). The rate of dissent has thus declined from the previous year's 13.6 per cent. 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	102	7	6.9%
2- Remuneration	9	2	22.2%
3- Capital structure	23	1	4.3%
4- Shareholders' rights	24	7	29.2%
Total	158	17	10.8%

Engagement performance

Of the thirty-two companies in the portfolio at 31 December 2014, thirty[1] have been assessed[2] according to the ten principles of the Global Compact. This success is largely attributable to the professionalism of the Guilé Engagement Team (GET).

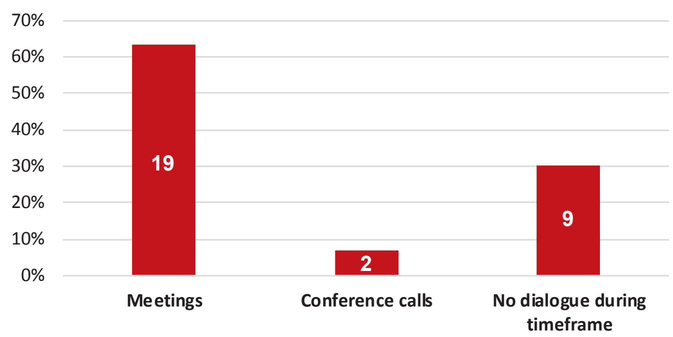
On the basis of the assessments carried out, an active dialogue was conducted with twenty-one companies, mainly through nineteen visits to the headquarters of those concerned.

For this first year of dialogue, we placed an especially strong emphasis on face-to-face meetings. These 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 portfolio managers and the Fondation Guilé's experts – a practice unique in the responsible funds universe. As a result, 70 per cent of the companies maintain a shareholder dialogue with the Guilé Funds. This integration of different skills enables us to fine-tune the discussion according to the company's specific business model and the financial materiality of its ESG issues.

We visited 63 per cent of the companies in the fund, which represents considerable groundwork and a much higher ratio than that of the existing engagement overlay programmes. In the light of the portfolio manager's own preferences and the excellent feedback from the companies, we expect to maintain a high proportion of face-to-face meetings in the coming years.

The weighting of the nine companies that were assessed by the GET but with whom we did not actively seek a dialogue represents only 15 per cent of the compartment[3]. We made this difficult but strategic choice so as to ensure a quality dialogue with the fund's most influential companies, whose ESG issues therefore seemed the most urgently in need of clarification. As explained in detail in chapter 5, this choice enabled us to reach engagement level three, our long-term target, in the very first year.

Contacts with the companies in the compartment



> THE LATTER PARTICULARLY APPRECIATE THE JOINT PRESENCE OF THE PORTFOLIO MANAGERS AND THE FONDATION GUILÉ'S EXPERTS – A PRACTICE UNIQUE IN THE RESPONSIBLE FUNDS UNIVERSE. AS A RESULT, 70 PER CENT OF THE COMPANIES MAINTAIN A SHAREHOLDER DIALOGUE WITH THE GUILÉ FUNDS.

[1] *The companies Zurich Insurance and Helvetia entered the portfolio in September and October 2014 respectively, i.e. after our deadline for beginning the dialogue during the current year.*

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

[3] *Actelion, Belimo, Bell, Bossard, Galenica, Kuehne & Nagel, SFS, Straumann and VZ.*

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

"...Thank you very much for the opportunity to discuss your report 2013 with us. We took some points out of it and are working on them further. Especially the discussion about an external sounding board for G4 was interesting and we will contact you about this initiative in September..."

Dominic Slappnig,
Head of Corporate
Communication & Investor Relations, Sika AG

" ...Thank you as well from our side for the open discussion and the useful insights from your analysis, joined to your mail. We have taken good note of your remarks. We will publish our AR and Sustainable Report early February 2015. It is planned to adapt our non-financial reporting within two years (starting with the next report already), according to G4 or other standards. Stakeholders will certainly play an increasing role in this process..."

Pascal Salina,
Corporate Responsibility, Swisscom

"...Many thanks for sending us the examples. We appreciate this service and would like to thank you and Thomas once again for the insightful discussion... "

Stefan Moser, VP Risk Management,
Swiss Reinsurance Company

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 business leaders, we are proud of the tangible results that we publish every year, which tend to show that the Guilé Funds are succeeding in 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 and 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 demanding exercise that most financial institutions neglect, having wrongly assumed that the financial impact would 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. Note 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.

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[4]. We found this study illuminating because it corresponds more closely to our reality. It concludes, first, that companies 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:

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 and necessary integration of the financially material ESG factors into the investment processes.

[4] *Mozaffar Khan, George Serafeim, et Aaron Yoon: "« Corporate Sustainability: First Evidence on Materiality »; 2015*

Sample questions on financially material ESG issues	
Company	**Issues**
Givaudan	How are labour norms, particularly freedom of association, upheld in China, i.e. the flavour manufacturing facility in Nantong?
Novartis	Novartis Japan has recently been accused of fraud and corruption by promoting Diovan inadequately. Is there a specific code of conduct in Japan?
Adecco	How does Adecco balance the security of employment and the flexibility needed by its clients?
Barry Callebaut	What are BC's targets concerning the further roll-out of the "Quality Partner Program" in Ivory Coast?
Flughafen Zürich AG	Competition is emerging from airports in the Middle East. How do you compete against them as they are much less environment conscious and have very limited code of conduct in place if at all?
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?

These questions from the portfolio managers were discussed, in principle, during our most recent dialogues. 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 mention their frustration at the lack of investors able to address 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 all the companies in the compartment. Early in the process, the portfolio managers, aided by the GET experts and PPT, determine the themes 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 the ten principles of the Global Compact will always be systematically analysed and discussed, the FMF will enable us to highlight those that seem the most critical. The GET will define 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 FMF for a selection of the GSEF companies:

Financial Materiality Focus		
Company	**Issues**	**UNGC Principle concerned**
Nestlé	Product safety and responsible sourcing	P1 - Human rights
UBS	Project financing with adverse ESG impacts	P2 - Complicity
Clariant	Environmental damage and climate change	P8 - Envir. Responsibility
Geberit	Water efficiency	P9 - Envir. technologies
SGS	Business integrity and exposure to government contracts	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 50 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.

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 companies) the anti-corruption principle represents a major risk factor. Lastly, and primarily for companies active in distribution, travel and leisure, which are not represented in the GSEF, 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 gained in intensity, though apparently the process could take several years. The main 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.

> 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 50 PER CENT OF OUR COMPANIES).

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[5].

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. In addition, the Initiative 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 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 that 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.

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.

[5] *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 deep 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.

Active portfolio management based on deep fundamental analysis is the keystone of the Buy & Care investment strategy.

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

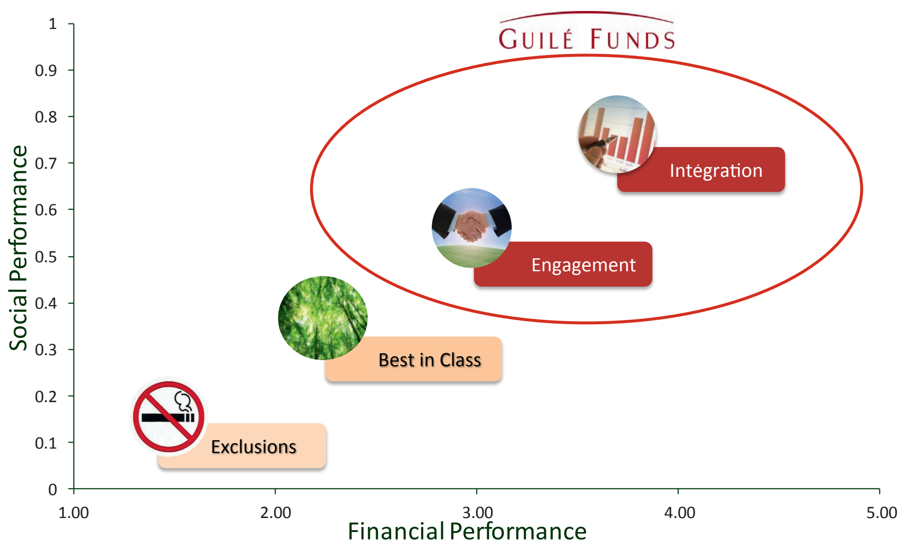
3. We build concentrated portfolios. Our deep analysis strengthens our convictions, reduces portfolio turnover and transaction fees, while also enabling us to deviate from the benchmarks.

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 many 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.

The Guilé Funds also 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, can 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 evolution, 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 Swiss Engagement Fund.

Company analysis

Alexandre Stucki Investment Management (ASIM), manager of the GSEF, favours primary financial research as a basis for evaluating investment opportunities. Its founder, Alexandre Stucki, has more than twenty years' investment experience, including over ten years dedicated to the Swiss market. His second in command, Nathalie Kappeler, is also an analyst and manager specialised in the Swiss market.

ASIM follows the precepts of Benjamin Graham and Warren Buffet, fathers of the methods and techniques of the "value investing" approach. The investment objective is to obtain steady, sustained capital growth over the long term. ASIM selects high-quality businesses that reply to a set of quantitative and qualitative criteria. In general, the companies must present steady, stable earnings growth, a sound balance sheet, a high return on invested capital and strong free cash flow generation. High-quality management, a stable, transparent long-term strategy, concentration on the target activities, and potential for product innovation are other key criteria when selecting the securities. To compile the information needed for its analysis, ASIM also studies the companies' publications, meets their management regularly and talks to their competitors.

THE DISCUSSIONS HELD WITH THE COMPANIES IN PARTNERSHIP WITH THE GUILÉ ENGAGEMENT TEAM ON THE SUSTAINABILITY ISSUES CAN THEN BE USED TO FINE-TUNE THE ANALYSIS.

The discussions held with the companies in partnership with the Guilé Engagement Team on the sustainability issues can then be used to fine-tune the analysis. They also provide a longer-term vision of the company's strategy and the challenges that it may face, for example when procuring natural resources.

For each of the companies followed, the primary research is conducted in-house. The portfolio managers construct a model (profit and loss, balance sheet and cash flow) with a five-year historical track record and five-year projections. ASIM then calculates a fair value for each stock in the portfolio. The fair value is derived from five-year projections. The estimated earnings per share is calculated for the year 2020 and assigned a valuation multiple. To this figure is added the cumulative dividends over the five years to 2020. This amount is discounted to the present value using the weighted average cost of capital (WACC) specific to each company as a denominator. This gives the current fair value. The management decisions are made by comparing the fair value with the current market price of the security. The models are regularly updated and the fair values are compared daily with the current market prices.

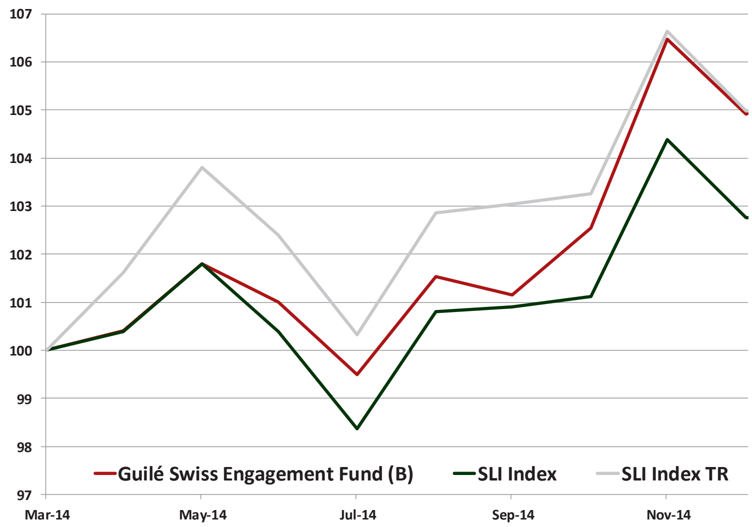
The ASIM portfolio management process

Portfolio management

The investment universe is the Swiss Performance Index (SPI) of 250 stocks. Between twenty and forty stocks are selected from slightly more than a hundred with sufficient liquidity. The fund does not seek to replicate its benchmark, the SLI (Swiss Leader Index of the thirty most liquid SPI stocks). The investment strategy is based solely on stock-picking. Its investment horizon is typically eighteen to thirty-six months and the portfolio turnover is low, which facilitates relations with the companies' management. A stock cannot exceed 10 per cent of the portfolio and the fund's five largest holdings must not represent more than 40 per cent of the portfolio value (UCITS regulation). The fund is actively managed, based on alpha generation and valuation so that the portfolio is best positioned to cope with the different market phases. There are two classes, Class A for private investors and Class B for institutional investors.

> Between twenty and forty stocks are selected from slightly more than a hundred with sufficient liquidity.

Since the compartment's inception on 1 April 2014, classes A and B have returned 3.8 per cent and 4.9 per cent respectively, outperforming the benchmark (Swiss Leader Index), which is up 2.8 per cent. The SLI, which contains the thirty most liquid companies on the Swiss market, was selected for several reasons. First, it is line with our manager's investment style, which favours large- and mid-cap companies. Similarly to the SLI, Alexandre Stucki's portfolios focus on a limited number of stocks. Second, it also presents the advantage of capping the weightings of the largest Swiss companies by capitalisation at 9 per cent each. The better diversification that results enables the active manager to limit the impacts of Nestlé, Novartis and Roche. Lastly, the SLI is the only index to comply with Swiss, European and US regulations. The Guilé Funds, which are governed by European law, also stipulate the use of this index. As these funds do not allow for refunding of the withholding tax on dividends and there is no SLI Net Return, the SLI Price Return net of dividends was selected. For comparison, we have inserted the performance of the SLI Total Return with dividends in the chart above. We note that during the period considered, the performance of the GSEF gradually moved closer to that of the SLI TR, and did so without reinvestment of the 35 per cent dividend yield. In addition, a significant portion of the management fees is handed on to the Fondation Guilé to finance the activities of the GET, which initiates and conducts the shareholder engagement.



Voting and engagement

In the past, visits to the companies and participation in the annual general meeting 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. **Therefore, 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 (UNGC).

Alexandre Stucki 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 is able to 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.

The continuous dialogue that we seek as a shareholder is another distinguishing feature of our investment strategy. The Guilé Funds shareholder engagement is based on the ten principles of the United Nations Global Compact (UNGC).

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.

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 provided by the GET arouses the companies' interest. It opens the way to a constructive on-going 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 these specific features of the Guilé Funds.

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 companies 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 specific financially material issues that will be addressed with the company. That decision is always taken jointly. Once the assessment is validated (COP - Communication On Progress - Analysis) and completed by the portfolio manager, a summarised version (Assessment Results) is sent to the companies' highest executive and operational bodies.

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 considers the ten principles together and seeks rather to determine whether the information published is sufficiently credible and accessible and 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 Fondation Guilé's experts 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

Creation of the compartment

The Guilé Swiss Engagement Fund was launched on 1 April 2014 and the cash was rapidly invested during the first few days of the launch period. The compartment comprises thirty-two stocks. The minimum holding is 0.5 per cent and the maximum is 9.5 per cent. The four largest positions are Novartis, Nestlé, Roche and Givaudan. At the end of 2014 the cash position represented less than 5 per cent of the portfolio. The fund does not replicate the index. Its objective is to deliver steady growth of the invested capital. The compartment is actively managed, with the accent on stock picking and value creation, so that the portfolio is best positioned to cope with the different market phases. It invests in companies that present steady earnings growth, a sound balance sheet, a high return on investment and strong free cash flow generation.

From the compartment's inception on 1 April 2014 to the end of 2014, classes A and B delivered returns of 3.8 per cent and 4.9 per cent respectively. The benchmark Swiss Leader Index (SLI) rose 2.8 per cent.

From the compartment's inception on 1 April 2014 to the end of 2014, classes A and B delivered returns of 3.8 per cent and 4.9 per cent respectively. Simultaneously, the benchmark Swiss Leader Index (SLI) rose only 2.8 per cent.

Performance of the Swiss equity market

The Swiss equity market continued to rise for the third year in a row, albeit more modestly than in the previous years. Despite the timidity of the global economic recovery, the markets were bolstered by the expansionary monetary policies of the central banks, especially the European Central Bank, and the historically low interest rates. The Swiss economy grew vigorously in 2014, fuelled by domestic demand. Swiss exports perked up, particularly in the pharmaceutical sector.

It was a stellar year for the pharmaceutical companies. Roche and Novartis published strong results throughout 2014 and possess robust pipelines. Novartis announced a reorganisation of its activities. It has acquired GlaxoSmithKline's oncology portfolio and will pool its over-the-counter products with GSK's consumer division in a joint venture. It has also sold its vaccines business (excluding the influenza vaccines) to GSK and its animal-health division to Eli Lilly. Actelion, which specialises in treatments for pulmonary arterial hypertension, has announced promising results from a study of its oral treatment Selexipag. It has submitted the drug for approval to the European and US health authorities, the EMA and FDA respectively. Sonova, the world's leading manufacturer of hearing instruments, benefited from further margin expansion and the launch of its new product platform. Straumann, which specialises in implant dentistry, strengthened its margins with the launch of new products. The only exception in the pharmaceutical universe was Galenica. After an outstanding year in 2013, the company's results were slightly lower than expected in 2014. Galenica plans to divide its pharmaceutical and healthcare operations into two separate businesses, prior to splitting up into two companies in the medium term when the Pharma division has reach the necessary size.

> Investors piled into companies paying robust dividends, particularly insurers. Zurich Insurance, Helvetia, Swiss Life and Swiss Re all delivered strong performances.

Food companies also flourished in 2014, as exemplified by the giant Nestlé. The smaller businesses Lindt & Sprüngli and Emmi forged ahead with their growth and particularly their expansion in the US market. In contrast, Barry Callebaut suffered from the decline in the chocolate market. Bad weather during the barbecue season weighed on sales at Bell. This stock was also penalised by the risk of a heavy fine in Germany for price-fixing.

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Swisscom, Switzerland's dominant telecommunications provider, remained stable, as evidenced by the dividend exceeding 4 per cent.

The chemical companies' performances varied considerably. Givaudan enjoyed an exceptional 2014 with good results throughout the year. This company specialised in flavours and fragrances gained market shares and increased its presence in the emerging-market countries. The year was less rewarding for the other chemical businesses in the portfolio. Syngenta suffered from the falling prices of agricultural commodities and had to make downward revisions to its margin and cash flow objectives, owing to currency effects and higher operating costs. Clariant finished restructuring its portfolio to obtain a less cyclical profile. It disappointed investors in the second half with a slight downward revision to its full-year forecast in light of the flagging European economy. Sika posted strong growth, hitting an all-time high in mid-December 2014. It reported robust sales growth along with improved profitability. Following announcement of the sale to Saint-Gobain of the Burkard family's 16 per cent of Sika shares, representing 52 per cent of the voting rights, the share price collapsed. Sika's board and management oppose this change of control.

In the industrial sector, results varied according to the stock. Geberit posted a fine performance, thanks to the steady improvement in its margins. The company has acquired Sanitec, giving it a wider range of bathroom products "both in front of and behind the wall", to borrow its expression. The two businesses' complementarity should result in synergies and increased market share. The company SFS, which launched its initial public offering in 2014, is benefiting from the boom in the electronics industry, particularly through its biggest customer, Apple. Belimo was hurt by the decline in Asia's growth. Bossard's sales suffered from the slowdown in its business with John Deere, its main customer in the US.

The central banks' expansionary monetary policies buoyed up the banking sector, as evidenced by a strong showing from Partners Group. UBS did not benefit from the solid performance in its wealth management division, owing to the numerous legal disputes under way (exchange rates, Libor, France, etc.).

Businesses in the luxury sector suffered from the slump in Swiss watch exports and weaker demand in Hong Kong and mainland China. In view of this situation, Richemont announced redundancies at its Cartier factory in Switzerland. News of the market launch of smartwatches by Apple and other makers weighed particularly heavily on Swatch.

Turning to the other stocks in the compartment, we note the positive performances at Flughafen Zurich, which delivered strong results and is benefiting from the growth in the number of domestic passengers. Expectations of a recovery in commercial trade saw Kuehne & Nagel back in favour with investors. Adecco was hard hit by the weakness of the French market, its main geographic region. SGS posted disappointing results and faces further restructuring in its Minerals division.

Outlook

The year 2015 will be critical for Switzerland. The global economic recovery remains fragile, particularly for its main business partner, the eurozone. The Swiss National Bank's decision in January to abandon the floor rate of 1.20 EUR/CHF triggered a surge in the Swiss franc against the euro and even the US dollar. This rise in the Swiss franc is likely to deal a blow to the competitiveness and profitability of Swiss businesses. The uncertain political relations between Switzerland and the European Union add to the uncertainty of the outlook for the Swiss economy. Swiss exports are likely to run out of steam in 2015. Can domestic demand alone shore up the country's economic growth? Some research institutes forecast a brief recession for Switzerland in 2015.

The outlook for the Swiss financial market seems as unsure as the health of the Swiss economy. With interest rates falling, equities remain a more attractive investment than bonds. The 10-year yields' recent slide into negative territory means that equities still have potential, despite the fact that the aggregate earnings of Swiss businesses are expected to stagnate in 2015, penalised by unfavourable exchange rates. Investors should continue to increase their equities weighting to achieve a minimum yield in 2015, even though interest rates should gradually start to rise. Companies paying high dividends are likely to find favour with investors. But businesses with a marked exposure to sales in the eurozone and a high Swiss-franc cost base are likely to suffer.

The outlook for the Swiss financial market seems as unsure as the health of the Swiss economy. With interest rates falling, equities remain a more attractive investment than bonds.

Composition of the portfolio as at 31 December 2014

Sector	GSEF Portfolio as at 31.12.2014
Health Care	ACTELION
Industrial Goods & Services	ADECCO
Food & Beverage	BARRY CALLEBAUT
Construction & Materials	BELIMO HOLDING
Food & Beverage	BELL
Construction & Materials	BOSSARD HOLDING
Personal & Household Goods	CIE FINANCIERE RICHEMONT
Chemicals	CLARIANT
Food & Beverage	EMMI
Industrial Goods & Services	FLUGHAFEN ZUERICH
Retail	GALENICA
Construction & Materials	GEBERIT
Chemicals	GIVAUDAN
Insurance	HELVETIA HOLDING
Industrial Goods & Services	KUEHNE & NAGEL INTERNATIONAL
Food & Beverage	LINDT & SPRUENGLI
Food & Beverage	NESTLE
Health Care	NOVARTIS
Financial Services	PARTNERS GROUP HOLDING
Health Care	ROCHE HOLDING
Industrial Goods & Services	SFS GROUP
Industrial Goods & Services	SGS
Construction & Materials	SIKA
Health Care	SONOVA HOLDING
Health Care	STRAUMANN HOLDING
Personal & Household Goods	SWATCH GROUP
Insurance	SWISS RE
Telecommunications	SWISSCOM
Chemicals	SYNGENTA
Banks	UBS GROUP
Financial Services	VZ HOLDING
Insurance	ZURICH INSURANCE GROUP

Exercise of voting rights in 2014

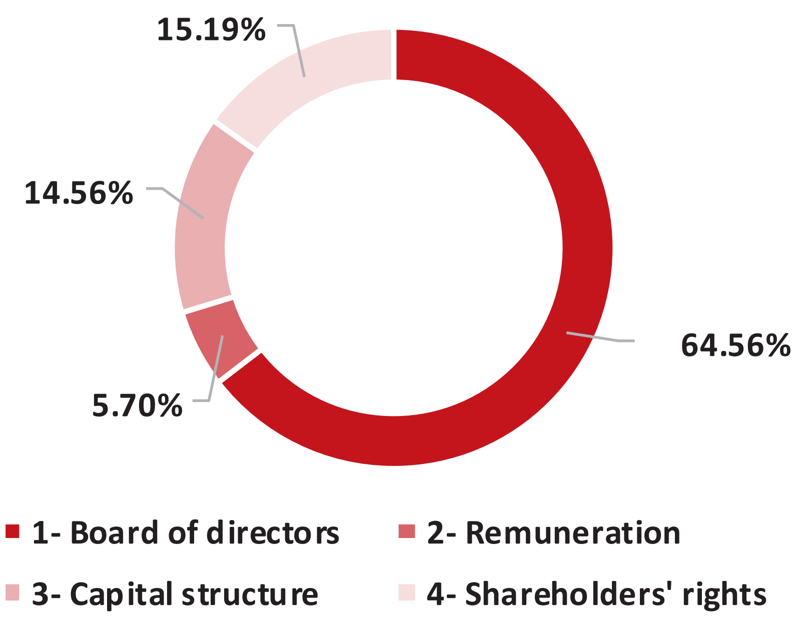
Distribution of votes in 2014

As mentioned earlier, it was not possible to exercise the compartment's voting rights for 2014 owing to the launch period's coinciding with the season of annual general meetings. Nevertheless, to illustrate our voting practice, we present below our voting positions for the seven Swiss stocks held in both the European compartment – for which the votes were cast – and in the GSEF.[6] The underlying guidelines are the same and the two portfolio managers coordinate their vote.

During the period under review we expressed an opinion on 158 items on AGM agendas, representing an increase of almost 100 per cent in the voting decisions to be made. This additional workload is directly related to the greater transparency demanded by investors.

Votes on remuneration increased 50 per cent, rising from six votes in 2013 to nine in 2014. Even though we had predicted that development, 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 and based on demanding performance targets tied to the company's results in the following three years.

Distribution of votes



[6] *Geberit, Nestlé, Novartis, SGS, Swiss Re, Syngenta and UBS.*

Main oppositions in 2014

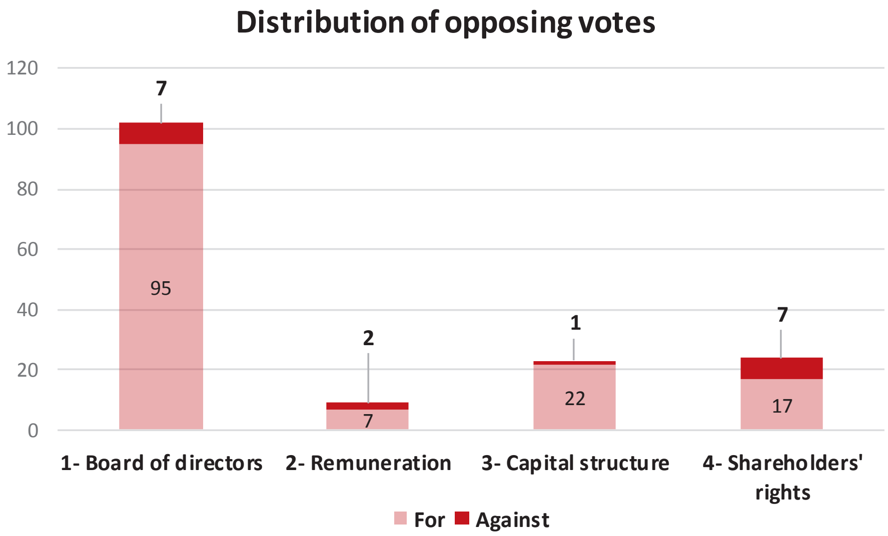
Of the 158 votes cast, we voted against the boards of directors' recommendations seventeen times, i.e. in 10.8 per cent of cases. **The chart below shows that remuneration still represents a major point of contention (22.2 per cent of votes against management recommendations) but was not the only item that caused us concern.**

Although this rate of opposition is high, it has declined significantly (63.5 per cent), reflecting a substantial improvement in the transparency and consistency of current remuneration policies. 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 achieved over the long term". In each case, we studied the company's situation and decided in accordance with our voting guidelines, in the compartment's long-term interests.

> In 2014 our main oppositions (29.2 per cent of our votes against management) concerned non-respect for shareholders' rights.

In 2014 our main oppositions (29.2 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 subjects linked to equal treatment of shareholders, anti-takeover measures, and statutory changes, particularly those linked to multiple or limited voting rights.



Themes	No. of votes	Against	%
1- Board of directors	102	7	6.9%
2- Remuneration	9	2	22.2%
3- Capital structure	23	1	4.3%
4- Shareholders' rights	24	7	29.2%
Total	158	17	10.8%

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 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 table below lists the three companies where we challenged at least one item on the agenda concerning the board structure.

Vote concerning: Board of directors			
Nom	Vote	Against	% Against
SGS NOM.	10	5	50.00%
SWISS RE	17	1	5.88%
UBS GROUP	16	1	6.25%

This table shows that we were particularly critical of the company SGS as regards its board's lack of independence. In principle, those 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. In the present case, 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.

The table below lists our objections and the final voting results for all the resolutions that we opposed concerning the board of directors.

Vote concerning: Board of directors		Results	
Name	Description	Vote % For	Our objections
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
UBS GROUP	3) Ratification of Board and Management Acts	87.3%	Investigations under way

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

Votes concerning: Remuneration			
Name	Vote	# Against	% Against
SGS NOM.	1	1	100.0%
SYNGENTA	1	1	100.0%

We note that in a Europe-wide comparison, Swiss remuneration tends to be positioned above the average. In addition, and undoubtedly 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.

The table below presents the approval rate for each disputed point and the voting result. **The resolutions that we opposed were also the most controversial, mobilising some 30 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 have developed into minutely orchestrated meetings where directors and executives 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 the 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.

Votes concerning: Remuneration		Results	
Name	Description	Vote % For	Our objections
SGS NOM.	2) Remuneration Report	67.6%	Discretionary pay too high and overly focused on the short term
SYNGENTA	1.2) Compensation Report	71.6%	Pay overly focused on the short term

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 is the least controversial topic, with only one opposition 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 on 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.

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 the 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 PricewaterhouseCoopers.

Vote concerning: Capital structure					Results	
Name	Vote	# Against	% Against	Description	Vote % For	Our objections
GEBERIT	3	1	33.33%	6) Appointment of Auditor	63.2%	Excessively high non-audit fees

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.

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

In three 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.

Vote concerning: Shareholders' rights			
Name	Vote	# Against	% Against
NESTLE	5	1	20.00%
SWISS RE	3	2	66.67%
SYNGENTA	3	1	33.33%
UBS GROUP	3	2	66.67%

A particularly large number of Swiss companies were challenged this year on the subject of shareholders' rights. This was not entirely surprising. Major statutory changes had been expected, following approval of the Minder Initiative. Indeed they were stipulated in the ordinance against excessive remuneration in Swiss listed companies (ORAB), which entered into force on 1 January 2014. To their credit, Swiss businesses have made every effort to comply rapidly with the requirements. In the case of three companies (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 allowed 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 restricted. 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 the Swiss law on companies limited by shares.

Vote concerning: Shareholders' rights		Results	
Name	Description	Vote % For	Our objections
NESTLE	4) Amendments to Articles	89.7%	2nd vote possible if remuneration refused – restriction of 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%	Pas de chèque en blanc

> 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 RESTRICTED.

Shareholder engagement 2014 – 2015

RATE OF ENGAGEMENT

As outlined in the introduction, the GET was able to hold discussions with twenty-one of the thirty companies in the portfolio, representing an engagement rate of 70 per cent. This was achieved despite the fact that sixteen of the companies in the portfolio are not signatories to the Global Compact[7]. It is gratifying to see that this success rate exceeds those of investors conducting a dialogue based mainly on intimidation. We visited 63 per cent of the companies, which represents considerable groundwork. In the light of the portfolio manager's own preferences and the excellent feedback from the companies, we expect to maintain a high proportion of face-to-face meetings in the coming years.

It is helpful to be able to get together regularly with the companies. 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 companies 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 Swiss companies.

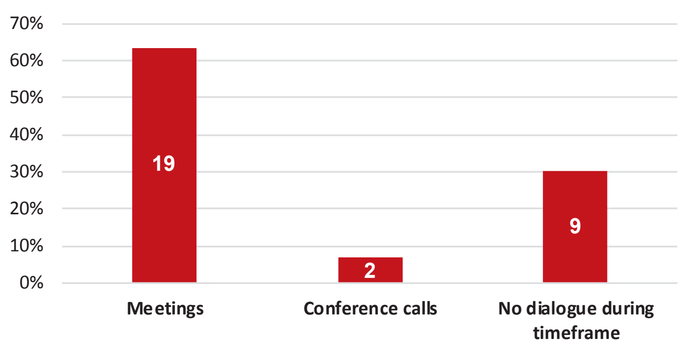
The weighting of the nine companies that were assessed by the GET but with whom we did not actively seek a dialogue represents only 15 per cent of the portfolio[8]. We made this difficult but strategic choice so as to ensure a quality dialogue with the fund's most influential companies, those whose ESG issues therefore seemed the most urgently in need of clarification. With the exception of Belimo and SFS, these companies are not signatories to the Global Compact, another factor that contributed to our choice. This focus on the businesses with the greatest social impact enabled us to reach engagement level three, our long-term target, in the very first year.

THE GUILÉ FUNDS' "SOFT POWER" ENGAGEMENT IS CLEARLY CONDUCIVE TO AN INFLUENTIAL BUT ALWAYS CONSTRUCTIVE DIALOGUE.

For the 2015–2016 engagement cycle, however, we plan on gradually taking active steps to launch the dialogue with some of the other companies. Our first step will be to motivate them to become signatories to the Global Compact, so that they publish information on their progress relative to the ten principles.

The majority of the companies speak 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 an influential but always constructive dialogue.

Contacts with the companies in the compartment



[7] Barry Callebaut, Actelion, Galenica, Kühne & Nagel, Emmi, Flughafen Zürich, Bossard, Bell, Straumann, Sonova, SGS, Partners Group, Roche, Swatch Group, Swisscom and VZ Holding.

[8] Actelion, Belimo, Bell, Bossard, Galenica, Kuehne & Nagel, SFS, Straumann and VZ.

Effectiveness of the engagement

Companies	Level	Description
0	(6)	(Publicizes Guilé's recommendations)
6	5	Shows improvement on at least one weak point raised by Guilé
2	4	Approves the progress objectives clearly specified by the Guilé assessment
0	3	Displays awareness and accepts the principle of a regular (annual) dialogue
13	2	Agrees to a detailed discussion about our assessment
9	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 eight companies in the portfolio[9]. It is important to note that the Guilé Funds had already established a dialogue with these eight companies, but in the context of other compartments. As a rule, it takes two years to reach level 3 and to have the principle of regular dialogue acknowledged and accepted. 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 with the same eight companies in the compartment.

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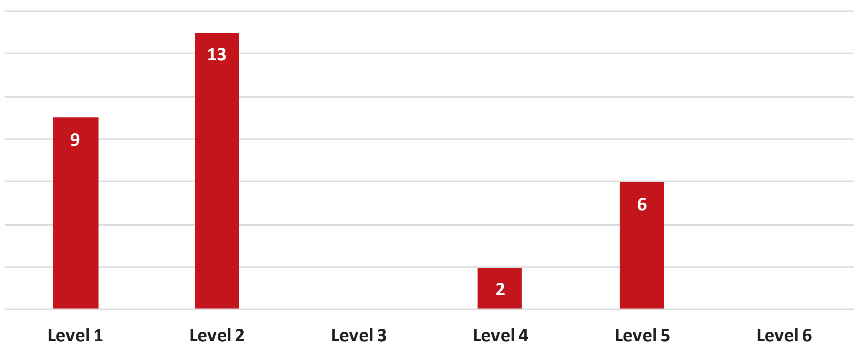
This means of measuring the extra-financial impact corresponds to our measurement of the compartment's financial performance. By continuing to demonstrate that this dual performance can be delivered, the Buy & Care strategy will become established as a true alternative. The graph below charts the results in terms of level of engagement for the first engagement cycle, 2014–2015. The distribution of engagement levels enables us to quantify the impact of the engagement. The latter currently averages out at 3, which already corresponds to our minimum target for the long term.

Distribution of engagement level: 2014-2015



[9] Geberit, Nestlé, Novartis, Richemont, SGS, Swiss Re, Syngenta and UBS.

We also wish to highlight three examples of the tangible impact of credible shareholder engagement. They concern, on the one hand, Novartis and Geberit, long-standing positions in the Cadmos-Guilé European Engagement Fund. We are already at our third dialogue with both, and they recognise the added value of our meetings. On the other hand, Lindt & Sprüngli has just received its first assessment by the Guilé Engagement Team.

Following our dialogue with Novartis in recent years, we communicated the GET's achievements. After several discussions, we had been able to convince the board and senior management to review its social responsibility strategy and its internal organisation. The changes that followed were based on a broad consultation including all their stakeholders, so as to determine and evaluate Novartis's key sustainability issues and redefine the functions and responsibilities of each member of the company. The GET was heavily involved in the process and the final result, whereby a member of senior management was appointed full-time global head of corporate responsibility. At the operational level he also chairs the Corporate Responsibility Board, comprising the heads of all functions that are strategically relevant to the ESG issues. The company also appointed a Governance, Nominations and Corporate Responsibilities Committee at the board level. Shortly after these functions were introduced, Alexandre Stucki and Thomas Streiff, leader of the GET, attended a meeting with Novartis's global head of corporate responsibility, as well as two of the latter's colleagues and the head of investor relations. They discussed the most recent changes and the plans still to be realised. **The head of corporate responsibility expressed his appreciation for the GET's valuable contribution in the past and said that he trusted that we would participate annually in the future discussions of the company's material ESG issues.**

The shareholder dialogue with Geberit took place at the highest level. Besides the group head of environment and sustainability, the chairman and former chief executive Albert Baehny also took part in the open and constructive discussion. This testifies to the importance that Geberit places on social responsibility and its belief in the commitment of the Guilé Engagement Team. As a leader in sanitary technology, Geberit takes great care to address the environmental aspects of its business. Its sanitary equipment is fitted with the most sophisticated water-saving devices. Until recently, few of the production sites were located in Europe and the company therefore had little objective reason to focus its social responsibility efforts on respect for human rights and labour standards. That situation has changed completely, however, as Geberit now has operations in China and India. With that in mind, we suggested that it review the Code of Conduct and adapt it more effectively to the conditions in those countries. Any reports of corruption or human rights abuses would have major consequences for both Geberit and its shareholders. The company's desire to strengthen its Code of Conduct and target its communication more closely to the different stakeholder groups demonstrates its will to progress. We shall follow up on the actions taken in the coming engagement cycles.

While Lindt & Sprüngli has just been assessed for the first time, the company and its social responsibility are well known to the Guilé Engagement Team. The head of sustainability and the financial director both attended the meeting, testifying to the importance placed on the subject. It should be noted that Lindt & Sprüngli has been a signatory to the Global Compact since 2009. During the very open discussion, we were able to explore the many challenges that the company must meet to maintain its competitive advantages. Besides the difficulty of ensuring its access to quality cocoa beans, mainly from Ghana, and of producing hazelnuts, which are grown in the Black Sea region of Turkey (now experiencing an influx of Syrian migrants), while taking care to respect human rights and international labour standards, there is also the major challenge of obtaining supplies of certified palm oil. For the critical ingredients, Lindt & Sprüngli has decided that where possible it will go direct to the producers. It is investing heavily in increasing the capacity of the cocoa producers, the farmers and cooperative farms, and certain intermediaries. This programme should cover all the cocoa production as from 2020. Lindt & Sprüngli's documentation, particularly its general and supplier codes of conduct, is not yet completely satisfactory. Compared with international best practices, its approach to the human rights issues, especially, could be improved.

As a responsible shareholder, we encourage most of the companies in our fund to pay greater attention to the tangible financial risks of inaction, negligence or even unlawful behaviour. The companies are often either aware of the challenges that they face or ready to consent to some of the adjustments that we propose, particularly as they are suggested 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[10]. 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, which represent 96.6 per cent of the market[11]. 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.

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This confidence is underpinned by the positive developments in the portfolio 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 seem to find it easier to access new markets. Some studies also show that high ESG quality reduces their risk and their cost of capital[12]. 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[13].**

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.** 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. The companies have realised that reputation pays little heed to legal distinctions and national borders. The progress seen, particularly on

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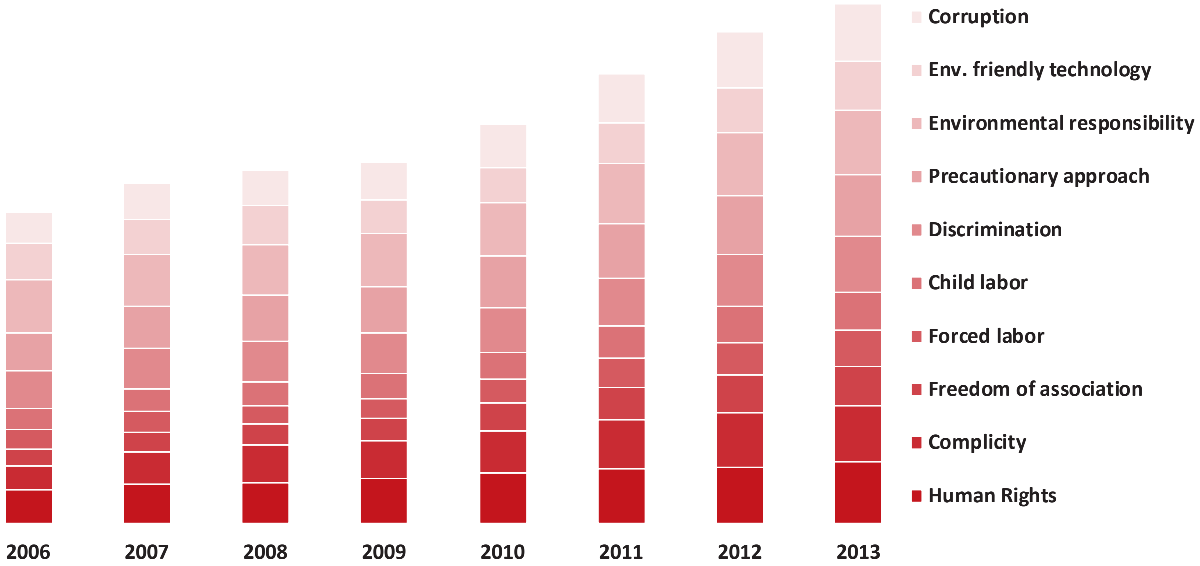
[10] Survey by Voxia communication and Conser presented at the Geneva Forum for Sustainable Investment 2014.

[11] Eurosif: European SRI Study 2014.

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

[13] 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



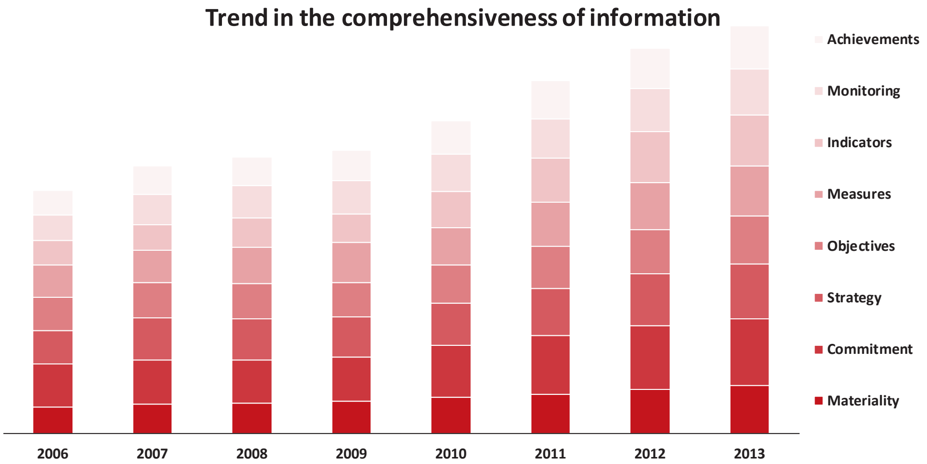
the "Complicity" principle, is therefore related to the integration of suppliers and other members of the value chain into the companies' social responsibility policies.

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[14]. Not surprisingly, the overall progress is the same as for the ten principles, that is, 8 per cent a year.

[14] *See chapter 2.3.*

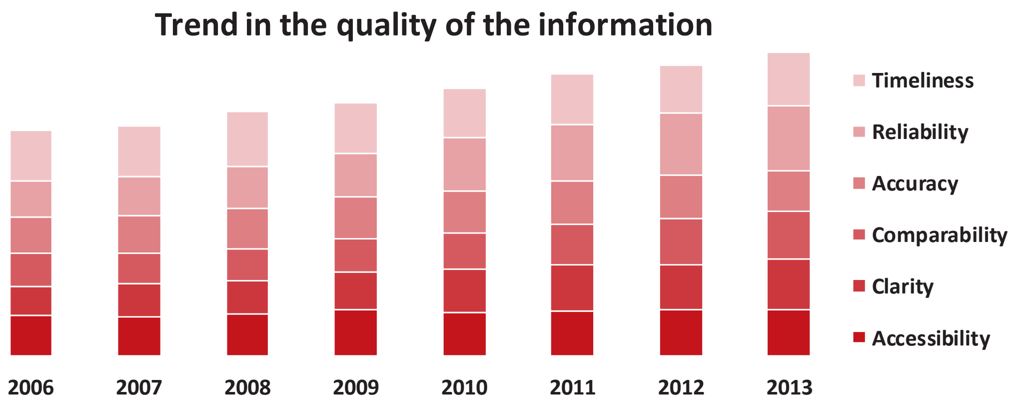


The chart above shows that the implementation has moved in tandem with the transparency. We note an increasing professionalism in the way the companies implement their social responsibility. The most striking improvements appear both upstream and downstream of the eight-step process. A sound strategy must be based first and foremost on clearly defined priorities.

The companies have understood. They are now far more adept at describing the importance and materiality (+81 per cent) of each principle in relation to their business model. The next criteria on the chart: definition of consistent strategies and concrete objectives, 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 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 above all 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 all 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 note 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 communication to 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[15]. The carbon intensity as measured by CO2 emissions according to electricity production may 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 the companies that are well positioned and take good decisions in these areas to demonstrate the links to tangible improvements in their competitive advantages and 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 fuels 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 NOTE THAT WE ARE STILL ONE OF THE VERY FEW INVESTORS TO ANALYSE THEIR ESG COMMUNICATION IN DETAIL.

[15] *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. It is important to note that some of these companies were participating in the dialogue before they entered the Cadmos-Guilé Swiss Engagement Fund, having been selected for other Guilé Funds compartments.

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