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ESG CONTROVERSIES

ESG controversies: the path from alert to investment decision

The controversies that businesses may potentially face come in a variety of forms, for instance involving industrial accidents, human rights violations, pollution, corruption or data protection. The research carried out by asset managers makes it possible to compare a company's commitments and statements with its actual business practices. How does one identify such a controversy, determine how serious it is and assess the company's response to it? And how might this affect our environmental, social and governance (ESG) analysis and investment decisions regarding the company? Pauline Papillon, an ESG analyst at Ofi Invest Asset Management, explains.

ESG CONTROVERSIES: WHAT ARE THEY EXACTLY?

A controversy refers to any event or series of events where a company is actually or perceived to be involved in practices that could potentially have an adverse impact on the environment, human rights, labour relations, business ethics or governance. Controversy analysis adds an essential dimension to any exercise involving the ESG assessment of an issuer. It makes it possible to gauge whether a company's commitments, policies and communication are consistent with its actual practices. It sheds light on any discrepancies or failings and therefore contributes to a more comprehensive assessment of the company's exposure to ESG risks and the quality of its governance structure.

Situations can vary enormously: a controversy might put employees in danger, violate human rights, pollute the environment, constitute corruption, violate data confidentiality, etc. They can also vary from one sector to another. If we take the technology and telecommunications sectors, for instance, important aspects to watch closely include data protection and user confidentiality. In heavy industry, meanwhile, controversies are more likely to involve site safety and worker safety. The retail sector more typically faces issues regarding working conditions and union rights.

Ofi Invest Asset Management refers primarily to the **United Nations Global Compact** as a common base on which to build its analyses. The Compact's ten fundamental principles cover four key areas: human rights, labour, the environment and anti-corruption. The standards established by the **International Labour Organization** (ILO) supplement our analytical framework, especially where health and safety in the workplace are concerned.

A company found to be responsible for a serious or lasting violation of these principles may be placed under watch and/or engaged in dialogue; in the most severe cases, it may be excluded from our investment portfolios.

THE PATH FROM ALERT TO ASSESSMENT: ANALYSING EACH CONTROVERSY

If we are to monitor close to **9,000 issuers** effectively, we need to be able to spot controversies as early as possible but also rank them in order of severity. For this purpose, Ofi Invest Asset Management refers to the alerts issued continually by specialist service providers such as **RepRisk** and **MSCI** as well as press articles and the information we have available in-house.

In 2025, **687 issuers were involved in at least one controversy examined by the ESG analyst team.**

Once an alert has been detected, we take three complementary approaches to analyse it.

Impact on stakeholders: to identify the organisations involved and assess the magnitude and severity of the alleged facts as well as their consequences.

Company response: to assess any remedial measures taken and the likelihood that they will repair the damage caused on a long-term basis. Conversely, a company's denial of allegations or failure to respond is also taken into consideration.

Impact on the company: to factor in the type of event and its consequences - financial, human, productive, reputational - along with the company's degree of responsibility and the risks incurred.

Each of these three aspects is scored on a **scale from 1 to 4**, on which basis we are able to determine the controversy's seriousness.

CROSS-ANALYSING SOURCES TO GAIN AN OVERALL PERSPECTIVE

Controversy analysis is not merely a one-off assessment of an incident. It involves two different time horizons. **Day-to-day:** new controversies are analysed as and when they arise. **Quarterly:** all controversies involving a single issuer are consolidated to gain an overall perspective.

Data sourced from RepRisk and MSCI are then cross-analysed with our in-house research within a matrix so that we can assign each issuer an overall controversy level ranging from **"negligible"** to **"very high"**.

It is particularly important to cross-analyse sources because data providers may appraise a single controversy differently. In the event of diverging assessments, our analysts will apply our in-house methodology and may challenge the assessments. We may select a different controversy level than that put forward by our external data providers if we believe this is warranted, in which case our decision is documented in our internal database.

Such quantitative and qualitative monitoring is an integral part of the process of performing issuer ESG analysis, and **we keep our fund managers informed of the outcomes on a bi-monthly basis** so that they can monitor any developments regarding controversies over time.

THE PATH FROM WATCHLIST TO EXCLUSION: A GRADUATED RESPONSE

We will not automatically exclude a company if a controversy involving it arises. Our response will depend on the seriousness and recurring nature of the controversy, and the way in which the company addresses it.

The extent of any action taken may differ from one case to another in accordance with the Global Compact exclusion criteria. The day-to-day process for monitoring controversies is used to place a company on the **watchlist** and track it more closely. We may also initiate **engagement** with the company and set specific expectations against which to measure any progress made. Last of all, in the most serious cases, the company may be **excluded from our investment portfolios**.

It may take just one controversy for a company to be excluded if it constitutes a major violation of fundamental principles, especially in the areas of human rights or corruption. If the incident is less critical, we will also analyse whether it is recurring in nature and, especially, whether the company is able to take remedial measures.

Engagement plays a decisive role in such cases. A company may offer explanations, acknowledge the facts and introduce corrective measures. Ofi Invest Asset Management has in the past reincorporated a company into its investment universe after deciding that the information it had provided during the engagement process was satisfactory.

Conversely, exclusion may signal the end of the process if warranted based on the seriousness of the facts and the lack of any remedial measures taken. **There are currently about fifteen companies on our exclusion list, while another sixty or so have been placed on our watchlist.**

AN EXAMPLE OF CONTROVERSY ANALYSIS

Controversy analysis can have very tangible consequences when it comes to investing. Amazon* was accused of violating trade union freedoms in a number of its warehouses. In the USA, the National Labor Relations Board (NLRB) unveiled unlawful retaliatory measures against workers involved in union activities at its JFK8 and DYY6 sites in Staten Island (New York)⁽¹⁾, including reassignment of duties and closer surveillance of union workers and restrictions on the circulation of union literature.

In the United Kingdom, following a union recognition campaign carried out by the GMB union at the group's BHX4 warehouse in Coventry⁽²⁾, the Uni Global Union reported that Amazon* had been accused of holding various anti-union meetings and taking action to discourage union membership.

Over in Canada, the DXT4 site in Laval (Quebec)⁽³⁾ became Amazon's* first unionised warehouse in the country in 2024. Just months later, Amazon announced that it was shutting down all seven of its logistics sites in Quebec. The Confédération des syndicats nationaux (CSN) described this decision as a tit-for-tat measure following the site's unionisation, and litigation was submitted to the Tribunal administratif du travail (labour law tribunal) in Quebec to examine whether the group had made these closures to bypass its collective bargaining obligations.

These controversies have recurred with some frequency over the years, along with other major incidents. Based on this information, such controversies are incompatible with the principles of the Global Compact, especially Principle 3 regarding freedom of association and the right to collective bargaining. Our analysis therefore led to the issuer being excluded from our open-end funds.

More broadly, our portfolio exposure to companies assigned **a very high controversy level works out at just 0.10%**, mostly because almost all the issuers concerned have been excluded.

A CHALLENGE: LARGE-SCALE ANALYSIS

With a team of six analysts monitoring close to 9,000 issuers, it can be a huge challenge to process all the relevant information. Recourse to big data could enable us to detect and analyse controversies more efficiently.

But controversy detection is just part of the process. The challenge is also to persuade companies to respond and take credible corrective measures. Where relevant, engagement can also be initiated collectively with other investors in order to widen the scope and urge companies to take responsibility for their actions.

KEY TAKEAWAYS

Ofi Invest Asset Management tracks ESG controversies across a universe of approximately **9,000 issuers**.

Analysis draws on **international standards**, various sources of information and an internal methodology.

Each controversy is assessed based on **its impact on stakeholders, the company's response to the controversy, and its impact on the company itself**.

Depending on the seriousness of the controversy and any remedial measures taken to address it, a controversy may result in **closer monitoring, engagement or exclusion**.

* These companies are cited for information purposes only and not as an offer to sell or a solicitation to buy securities.

(1) <https://www.business-humanrights.org/en/latest-news/usa-three-years-after-union-vote-amazon-refuses-to-recognise-jfk8-union-and-delays-collective-bargaining-through-legal-challenges-incl-comp-comment/>

(2) <https://uniglobalunion.org/news/gmb-falls-short-of-victory-at-amazon-coventry/>

(3) <https://www.csn.qc.ca/actualites/amazon-la-csn-demande-au-tribunal-dordonner-la-reouverture-des-entrepots/>

Expert insight

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