NEWSLETTER N°2 - February 2025

Turning point
ETHOS NEWSLETTER ON GOVERNANCE AND SUSTAINABILITY

EDITORIAL

At Ethos, we have long been aware of the importance of voting at general meetings (AGMs), especially if we want to have a positive influence on a company's practices. This is particularly true when it comes to sustainability and governance issues. While shareholder dialogue remains essential to influence companies, it is clear that it is not always enough on its own. This is where voting comes in. Voting against the re-election of the chair of a board of directors, for example, often has an immediate impact (especially if the vote is made public sufficiently in advance of the AGM). There is then a good chance that the company concerned will quickly contact investors to discuss their expectations and, in the best-case scenario, move in the right direction.

Responsible investors therefore have every interest in exercising their voting rights at the AGMs of the companies of which they are co-owners, particularly for agenda items that may have an impact on companies' sustainability and governance practices. However, it appears that this is not always the case. This is because they often invest through investment funds whose voting rights are exercised by assets managers, without necessarily taking into account the sensitivity of final investors. As revealed by a study published by ShareAction in mid-February, asset managers' support for shareholder resolutions dealing with ESG issues is at an all-time low. Of the 279 resolutions that would have improved companies' ESG practices in 2024, only four (1.4%) received a majority of the votes. This compares with 21% in 2021. Worse still, the world's four largest asset managers (BlackRock, Fidelity Investments, State Street Global Advisors, and Vanguard), who together manage more than USD 23 trillion in assets (more than the GDP of the EU), collectively supported only 7% of ESG resolutions in 2024.

It is in this context that Ethos and the members of the Ethos Engagement Pool (EEP) International, led by CPEG and MBS Capital Advice, have decided to launch a new engagement campaign aimed at asset managers. The objective is simple: to ensure that there is no longer any discrepancy between the exercise of their voting rights and the engagement activities carried out by Ethos on their behalf. ‘The exercise of voting rights is an essential lever for expressing shareholder expectations and holding companies accountable on key sustainability issues,’ emphasises Grégoire Haenni, CPEG's Chief Investment Officer. If asset manager’s voting decisions are not consistent with the priorities defined by the members of EEP International, this dilutes the collective influence of investors and undermines the credibility of engagement activities.

Specifically, the campaign aims to identify the AGMs and agenda items for which the vote may conflict with the objectives of the EEP International and to engage in constructive dialogue with the main asset managers present in Switzerland in order to ensure greater consistency in future voting. A letter will also be sent to these assets managers at the beginning of this new proxy season to provide them with a list of companies for which sensitive votes have already been identified. This campaign will extend over several AGM cycles and will focus in particular on issues related to climate change, respect for human rights and corporate governance.

LATEST NEWS

February may only have 28 days, but this year it seemed particularly long to those who had their eyes fixed on Brussels awaiting for the publication of the ‘omnibus’ project, the stated aim of which is to simplify European sustainability regulations (CSRD, taxonomy, CSDDD). Revision of the scope and deadlines, reduction of the number of indicators that companies must publish, abolition of the principle of double materiality in favour of single materiality. Not a day went by without more or less well-founded rumours making the front page of the specialised press. Finally, the details of the project were published as planned on 26 February by the European Commission, confirming unfortunately most of the rumours.

For the rest, the news in February has obviously been very American. The earthquake caused by the election of Donald Trump, who seems intent on overturning everything in his path, continues to wreak havoc. Withdrawal from the Paris Agreement, cuts in environmental justice programmes, suspension of federal investment in charging stations for electric vehicles, legal challenges to climate responsibility measures taken by the states. As expected, the SEC has suspended the regulation that would have required public companies to disclose their greenhouse gas emissions (including scope 3 emissions) and reinstated a rule that makes it easier for US companies to reject shareholder resolutions related to ESG issues.

The effects are also being felt by companies. Many US companies have discontinued their diversity, equality and inclusion policies in the context of increased political scrutiny. Investor advisory giant ISS made headlines when it announced that it would no longer take certain diversity aspects into account in its voting recommendations at AGMs (particularly for the re-election of board members), citing political pressure from 21 state attorneys generals.

Resistance is building

However, the SEC and ISS decisions have provoked numerous reactions. A SEC commissioner has published a statement stating that the rule change on the filing of shareholder resolutions was ‘arbitrary and unfair’ because it comes in the middle of proxy season. Many voices have also been raised against the ISS decision, considering that it is a setback not only for diversity but also for active shareholding, governance and the very concept of investors' fiduciary duty.

At the same time, the shareholders of Apple overwhelmingly opposed (97% of the vote) a resolution filed by a conservative think tank that aimed to put an end to the company's diversity, equity and inclusion programmes.

Finally, some democratic states, such as California and New York, have introduced rules that will require companies with a certain turnover in their territory to disclose their GHG emissions (including scope 3) and their climate risks in the future.

GOOD NEWS

Among the good news this February, we first note that a coalition of 26 Australian, European and American pension funds, representing more than

STEWARDSHIP SPOTLIGHT

As it does every year, Novartis has officially launched the AGM season in Switzerland. Published in mid-February, the agenda of the company, however, contained two unpleasant surprises for shareholders. Firstly, the amounts put to the vote for the remuneration of the executive management continue to skyrocket. For example, the CEO, whose remuneration for 2024 exceeded 19 million Swiss francs, could in future receive up to 11 times his basic salary (1.86 million Swiss francs in 2024) in variable remuneration. This is more than 3.5 times the limit stipulated in Ethos' voting guidelines. Secondly, Novartis contines to consider the vote on its sustainability report as advisory, despite the fact that the Federal Council reiterated last summer that it was a binding vote.

Ethos hopes that the Novartis AGM will not set the tone for the 2025 season. For the time being, Ethos has completed the analysis of three AGMs of Swiss companies. There are still 200 to go before the end of the season. One of the next AGMs that could make waves, well ahead of UBS (10 April) and Nestlé (16 April), will be that of SGS. It will be held on 26 March in Geneva, a city that the company wants to leave to set its headquarters in Zug, where its CEO already resides. To do so, the company will need to obtain 66% of the votes at the AGM. This majority could be difficult to obtain. To be continued.

As usual, Ethos will publish all its voting recommendations for listed companies on its website five days before their AGM.

1500 billion US dollars in assets under management, has published a statement urging their asset managers to better integrate climate issues in their dialogue activities. A kind of 'backlash to the anti-ESG backlash', as Novethic notes in its paid article. The signatories have even provided their 'strategic partners' with a list of five best practices to follow in terms of engagement.

Two surveys also show that despite the headwinds that currently seem to be blowing in relation to sustainability, not all companies are likely to turn back. The first survey shows that a large majority (85%) intend to continue their efforts in terms of climate reporting. Even those that do not have to comply with the CSRD state that they intend to align their reporting at least partially with the European directive in 75% of cases. The second survey indicates that 75% of CFOs, a majority of whom are in the United States, fully intend to increase or at least maintain their sustainability-related investments.

Finally, more good news has come to us from Germany (not related to the legislative elections). On 13 February, Siemens shareholders rejected the board of directors' proposal to allow the company to continue to hold virtual-only AGMs. The proposal received 71% of the vote, while a three-quarters majority was required. For Ethos and its German partner DSW, who had launched a campaign at the end of 2024 calling on the largest listed companies in Germany to stop organising 100% virtual AGMs and to opt for a hybrid or face-to-face model, this result is obviously excellent news.

ETHOS NEWS UPDATE

Ethos, ADEME, FIR and WBA have renewed their collaboration in order to analysing the climate plans and strategies that are submitted to shareholders by European companies. As in 2024, Ethos will be responsible for analysing companies listed in Switzerland and Europe that are not covered by WBA or ADEME. These analyses will be published in the form of fact sheets on the FIR website, on average three weeks before the relevant AGMs.

In February, Ethos and the members of EEP International joined a group of 48 international investors, representing nearly £5 trillion of assets under management, in sending a letter to BP urging the company to submit any changes to its climate strategy to a vote of its shareholders. This campaign, which was the subject of a paid article in the Financial Times, followed the British oil company's decision to reduce its investments in renewable energy and the entry into its capital of an activist investment fund known for demanding strategic changes within the groups in which it invests.

Finally, Ethos has decided to join the European Association of Sustainability Rating Agencies. Established in 2023, the association aims to represent ESG and sustainability rating providers and data providers before EU regulators and other stakeholders. Its members believe that a collective mission is essential to help guide private investment in the transition to a sustainable and fair European economy, to enable informed financial decision-making, and to support an ESG rating sector that offers greater transparency, avoids conflicts of interest and applies clear processes.

Press review :

- ESG Talk podcast: How can investors actively influence companies and ensure greater sustainability? Our CEO Vincent Kaufmann was the guest on the 99th issue of this podcast dedicated to sustainability.
- "Ethos to vote against Novartis executive salaries": The publication of our voting recommendations for the Novartis AGM was widely reported in the Swiss media (swissinfo.ch, 21 February 2025)
