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# Shareholders for Change - Engagement Process

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## Engagement process and escalation strategy

### Precondition

All engagement initiatives should be based on solid evidence of potential ESG risks or controversies in which the target companies may be involved. Evidence can be found in companies' internal sources (e.g. annual report, sustainable development report, integrated report, registration documents, investors' slideshows) and external ones (e.g. reports of NGOs, associations, trade unions, media, ESG data providers). In some cases, new evidence can be provided, for the first time, by SfC original research (see below).

### Preliminary phase

Identify an issue (related to one or more companies) or a company, whether as single SfC member or as a network.

An engagement activity can be proposed by a single member (or a group of members) or by SfC as a whole. The engagement should normally refer to the three core issues of the SfC network: climate, taxation and human rights, as outlined in the Memorandum and the Charter of Values. Collateral issues can, however, be added to the core engagement issues (e.g. remuneration and, in general, governance issues).

### Member driven engagement

Each SfC member can present planned engagement activities at the SfC semi-annual meetings and the network decides whether some of these activities can be developed also on behalf of all SfC members or not. The engagement proposal should contain at least the name of the target company and the topic on which the engagement activity will focus on. Individual members do not need to have holdings in the target company in order to support an engagement. Also, any member has an opt out possibility in case it does not want to support the engagement.

Member driven engagement can also be proposed between SfC semi-annual meetings by sending a mail to the network, briefly presenting the reason for engagement and the name of the target company (or companies). In this case, members are given at least two weeks to opt out or veto the initiative. If no feedback is given within two weeks, this is considered as "no objection".

In some cases, an engagement process can be launched and monitored by two or more members but not the network as a whole. There are several reasons for such a course of action e.g. after some members decide to opt-out or in case of a shareholder proposal, the engagement can be done only by members holding shares and bonds of the target company. In this case it is important for the two or more participating members to indicate that the members are part of the SfC network (see Example 1) but stress, in all engagement activities, how many members specifically back this engagement, how many shares or bonds of the target company they hold and which amount (in €) they represent.

In case the engagement is done on behalf of all SfC members, this should be indicated in any communication with the company (letters, mails, interventions, meetings), explaining what SfC is, who its members are and the total AUM in € bn they represent.

#### *Example 1. Engagement by two or more members*

*In March 2019, Fondazione Finanza Etica and Meeschaert Asset Management have submitted a shareholder proposal for the 2019 AGM of H&M. A shareholder proposal can be submitted only by shareholders of a company and, at the moment of the submission, Fondazione and Meeschaert were the only SfC members holding shares of H&M.*

Nevertheless, the proposal has been submitted by specifying that both investors are founding members of the Shareholders for Change network, "a group of institutional investors involved in active engagement mainly with European corporations (<https://www.shareholdersforchange.eu/>), representing a total of over €23bn AUM".

Since the engagement with H&M encompasses other activities, and not only the submission of a shareholder proposal, Fondazione and Meeschaert could decide to send a list of questions to the company or meet the management also on behalf of all members, if these agree.

### **SfC driven engagement**

In some cases, as a recurring agenda item, SfC may decide to launch a joint engagement initiative based on new original research published on behalf of the network (i.e. by the SfC secretariat or by one or more members of the network).

In this case, the research should already identify potential target companies for a certain issue (or a number of issues) and formulate a list of questions that may be addressed to the companies. Soon after the publication of the research, the questions are sent to the target companies in form of a letter to the chairman of the board by the SfC secretariat on behalf of all members. Four weeks after the letter has been sent (see escalation strategy below), individual members take the lead for the engagement with companies targeted by the research (preferably the lead is taken by members that are holding shares or bonds) of the company or are based in the country where the company is headquartered).

#### *Example 2. Engagement by the network as a whole*

*In December 2018 SfC published "Bad Connection", a report on alleged tax avoidance and aggressive tax planning by four European telecommunication companies: Vodafone (UK), Telecom Italia (Italy), Deutsche Telekom (Germany) and Orange (France). The research identified new potential fiscal controversies related to the four companies and listed a number of questions to be asked.*

*In February 2019, the SfC secretariat sent letters to all four companies, on behalf of SfC, including all the questions raised in the research. A month later, Meeschart Asset Management, based in France and invested in Orange, took the lead in the engagement with Orange and will send a reminder to the company and possibly meet the management or attend the AGM (see escalation strategy below). Bank für Kirche of Caritas has taken the lead on Deutsche Telekom, Ecofi Investissements on Telecom Italia and Friends Provident Foundation on Vodafone. The four members leading the four engagement processes on behalf of SfC will regularly report on the progress made in the dialogue with the companies.*

*In May 2019 Meeschaert Asset Management will publish on behalf of SfC a report on the impact of "rare earth metals" extraction, trade and industrial use. The research will identify a number of target companies and a list of questions to be asked. SfC will then send a letter to all companies and, after two weeks, SfC members will take the lead in the engagement with individual companies.*

### **Escalation strategy**

#### **1. Dead-end scenario**

The engagement process starts with a letter to the chairman of the board of the target company (via e-mail and, possibly, by post, with return receipt). If the company doesn't answer within four weeks, a reminder e-mail is sent to IR.

If the company still doesn't answer (after two further weeks), SfC calls the investor relations office. If the company is not cooperative and refuses to answer, the issue is taken to the AGM in form of a shareholder proposal (if possible) or raised in a direct question during the AGM. If the company's answers during the AGM are not satisfying, SfC may decide to go public with a press release or interview saying that the company is not cooperative on this specific issue.

*Alternatively, the engagement process may start also with a confidential dialogue with managers of the company, the board or the supervisory board or by backing already existing engagement activities by other investors or NGOs, voting at AGMs, submitting shareholder proposals or asking questions at AGMs..*

The engagement may be continued, if SfC believes that the company might decide to cooperate in the future, or terminated, in which case, SfC members can decide to vote against the re-election of the board, sell their shares or bonds, to not increase existing investments or to not invest in the company in the future.

The members can inform the ESG rating agencies that they use about the company's behavior, so that the company's non-cooperative behavior might be incorporated in their analysis.

The engagement process can be started also if none of the members is holding shares or bonds of the target company.

## **2. Dialogue**

In case the company answers the questions raised in the initial letter (or some of them), the quality of the answers is evaluated and additional questions may be sent to clarify some aspects. Questions that have not been answered are asked again. A dialogue is established with the company and a call or meeting with the management may be arranged, to discuss outstanding issues. After the call/meeting, a brief report evaluating the company's answers and the quality of dialogue should be prepared and shared with the network. The meeting should be followed by progress monitoring: if no improvement is publicly disclosed, it may be necessary to organize a second call/meeting, after 6 months, in order to evaluate the results.

If some issues still remain open after the dialogue, SfC may decide to ask the outstanding questions or submit a shareholder proposal (if possible) at the next scheduled AGM.

If the company doesn't address the outstanding issues during the AGM or, in general, is not cooperative on all or some issues, SfC may decide to go public with a press release or interview.

## **3. Success**

In case all (or a substantial majority of) the issues have been addressed by the target company and the objectives for improvement discussed with SfC have been reached, the engagement process may be successfully closed. In this case, SfC may decide to go public with a press release or interview, explaining that the company has cooperated and the dialogue has been successful.

Also, in this case, the members can inform the ESG rating agencies that they use about the company's positive performance, so that the company's progress might be reflected in their analysis.

### **Note:**

*Of course, every single SfC member is free to adopt a different engagement approach: e.g. starting the engagement process with the AGM or meeting the management directly, without sending a letter before. If the engagement is done also on behalf of some or all SfC members, different approaches should be previously agreed by all members with the possibility for single members to opt out or veto the initiative.*

*The above mentioned escalation levels are individual to the engagement activity and the company and can be used in different order.*

*Not every engagement activity that does not meet the set goal or time frame inevitably leads to "public-shaming" or to divestment. The use of this final escalation level depends, among other things, on its sustainability impact or relevance. In the case of a partial sale or a divestment due to a non-successful engagement activity, the company will be informed over that decision..*

### **The role of Annual General Meetings (AGMs)**

Annual General Meetings are unique opportunities for shareholders to voice their concerns in front of a company's board, its top management, other shareholders and the media. During an AGM, shareholders can ask questions, addressing them directly to the board. Written questions can be sent before the AGM in most European countries and are normally answered, in written form, by the day of the AGM. For more technical questions, written questions and answers are normally to be preferred as they allow the company to provide specific details

Unannounced, oral questions during the AGM are generally used to create visibility for more strategic and or controversial issues, while creating a "surprise effect". In some cases (e.g. in Germany) it is not possible to submit written questions prior to the AGM. Therefore, technical details need to be asked in a long list of tedious oral questions.

The public confrontation with a company during an AGM is seen by many shareholders as a last resort, when all other engagement tools have failed or have not been sufficient. SfC also considers making AGM statements as one of the last escalation levels (before going public) in its engagement process.

It is also possible to submit shareholder proposals for the AGMs, i.e. put forward additional items for the agenda of the AGM giving all shareholders the possibility to vote on them. The way in which these proposals can be submitted, differs from country to country. In France, for example, 0.5% of the company's shares need to be gathered in order to file a resolution. In Italy the threshold is 2.5%, while in Sweden binding resolutions can be filed by any shareholder, independently from the number of shares owned.

### **Involving other shareholders**

In some cases, as a part of its engagement strategy, SfC may try to get in touch with other like-minded institutional investors (pension funds, charities, religious funds and others). The benefits of such involvement could be twofold.

First, having other shareholders participate in our engagement could reinforce our requests. Thus, in specific cases, a cooperation with other networks (ICCR, ShareAction, etc.) could be considered.

Second, involving other like-minded institutional investors could be a way of getting to know such investors. In some way, it could therefore be seen as a part of SfC's enlargement strategy. We may start a cooperation with an institutional investor on a concrete engagement case (company X on the issue Y). Through this case we get to know each other and the investor might become interested in SfC's further activities and finally join SfC as a member.

### **Transparency and disclosure**

SfC reports about its engagement activities at least once a year. The report is available on the SfC website.