

Sustainable Management in Action
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**Asset Management
and
Responsible Exercise of Shareholder' Rights**

Dominique Biedermann
PhD, Executive Director

ethos Investment Foundation, 2 Place Cornavin, POBox, CH-1211 Geneva 1
tel. +4122-716.15.55 - Fax +4122-716.15.56 - www.ethosfund.ch

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The ethos. Group

- **ethos. investment foundation** (exclusively for Swiss pension funds)
 - created in 1997 by two pension funds.
 - 90 members and CHF 700 million assets under management.
- **ethosfund. mutual fund** (open to all categories of investors)
 - launched by the bank LODH & Cie in February 2000.
 - managed according to the ethos concept.
 - CHF 35 million under management for several hundred investors.
- **ethos services Inc. consultancy**
 - wholly owned by the ethos Foundation.
 - executes consultancy mandates related to fund management with sustainable development criteria and the exercise of shareholders' voting rights (CHF 150 million).

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The objectives of ethos.

1. To invest primarily in companies that contribute to sustainable development.
2. To systematically exercise shareholder' voting rights, in conformity with corporate governance codes of best practice.
3. To engage in constructive dialogue with companies regarding the demands of sustainable development and corporate governance best practice.

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Institutional shareholders

- Manage important assets :
 - > 1/3 of market capitalisation in Switzerland;
 - > 1/2 of market capitalisation in the United States;
 - 25 largest US investors own 25% of the 25 largest US Corporations.
- Invest in a large number of companies and do not like to sell stocks for risk reasons (= universal owners). They are thus encouraged to engage directly with management.
- Are as professional as the managers of companies in which they invest.

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Shareholder rights

- **Financial rights**
 - Receive a dividend.
 - Receive a sum should the company be liquidated.
- **Social rights**
 - Request additional information.
 - Participate in General Meetings.
 - File shareholder resolutions at General Meetings.
 - Take the floor at General Meetings.
 - Vote at General Meetings.

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Corporate Governance

- Corporate Governance is the set of rules that govern the relations between the Board, executive management, shareholders and other stakeholders.
 - ➔ *The fundamental objective of corporate governance is to enhance long-term corporate value for all stakeholders.*

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Codes of best practice : main objectives

- A. Improve disclosure of information.
- B. Protect the rights of shareholders and guarantee equal treatment of shareholders.
- C. Promote independence of the Board of directors.
- D. Reconcile the interests of management and shareholders regarding remuneration.
- E. Guarantee independence regarding audit procedures.

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Active shareholding : main forms of action

- Engage in dialogue with management.
- Intervene and vote at annual shareholder' meetings.
- File shareholder resolutions at annual shareholder' meetings.
- Mobilise other shareholders in order to take joint action.
- Intervene with stock exchange or other authorities.
- Inform the press.

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Active shareholding : Exerting pressure via resolutions

Conditions to file a shareholder resolution

- **In the United States**

Hold stock worth US\$ 2000.- for at least one year.

- **In Switzerland**

Hold stock worth CHF 1 million in par value (unless the Articles of Association make provision for a lower sum) often representing several millions in market value.

For example (September 2003) :

UBS : CHF 25 millions

Swiss Re : CHF 95 millions

Nestlé : CHF 300 millions

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Different types of shareholder resolutions

- **Corporate governance**

Independence and role of the board of directors, disclosure of remuneration, equal treatment of shareholders (one share = one vote), ...

- **Social**

Equal opportunities, human rights, ...

- **Environmental**

Adherence to international codes, climate change, genetically modified organisms, ...

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Impact of an institutional investor ...

Annual General Meeting CS Group (31 Mai 2002)

- **ethos = CHF 20 millions worth of CS Group shares**
- ethos = 0,03 % of capital
- ethos + shareholders who gave their votes to ethos = 0.33% of capital
- level of participation = approx 1/3
- **real weight of ethos = 1% of votes cast**

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Conclusions

- To count as « socially responsible » or simply « ethical », an investor should not only focus his interests on the selection of companies. It is also his duty to exercise his voting rights and to engage in an active dialogue with management.

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www.ethosfund.ch

The website www.ethosfund.ch presents :

- The **voting positions of ethos** at annual general meetings of the companies which ethos is a shareholder.
- The **environnemental and social rating** of companies of which ethos is a shareholder.
- A **free news service** covering the areas of socially responsible investment and corporate governance.

In brief...

The **ethos Investment Foundation** was created in 1997 by two Swiss pension funds. It counts over 90 members and manages several portfolios of Swiss and foreign equities and bonds. The ethos Foundation has the following aims :

- Manage the assets of Swiss pension funds with an approach that integrates sustainable development.
- Allow the systematic exercise of shareholder voting rights based on best practice principles in corporate governance, as well as the concept of sustainable development.
- Engage in an active dialogue with companies, in order to increase their awareness regarding sustainable development and corporate governance best practice.

As far as environmental and social analyses are concerned, the ethos Foundation collaborates with the international consultant network of SiriGroup of which Centre Info in Fribourg is the Swiss partner. Financial analyses are carried out by the bank Lombard Odier Darier Hentsch & Cie. For the analyses of foreign companies' annual general meetings of shareholders, the ethos Foundation has access to information provided by the Institutional Shareholder Services (ISS) in the United States and the European Corporate Governance Service (ECGS).

The ethos Foundation has also contributed to the launch, by Lombard Odier Darier Hentsch & Cie, of the mutual fund **ethosfund** subject to Swiss Law and open to all categories of investors. Ethosfund is managed according to the same concept as for the different segments of the ethos Foundation.

Finally, the ethos Foundation fully owns **ethos services SA**, a company which provides asset management and consultancy services on sustainable development investments and on the exercise of shareholders voting rights.