NEWSLETTER N°5 - May 2025

Turning point

ETHOS NEWSLETTER ON GOVERNANCE AND SUSTAINABILITY

EDITORIAL: Vigilance in the interests of shareholders

If there is one thing that cannot be said about the Ethos Foundation, it is that it has failed to alert investors on issues such as poor governance, excessive remuneration and lack of transparency. For years, Ethos has for instance highlighted governance and risk management issues at Credit Suisse, repeatedly recommending that shareholders vote against executive remuneration, the discharge of the board of directors and the re-election of the chairman of the board. It has even put a request for a special audit on the agenda of the 2022 general meeting (AGM). Unfortunately, this was unsuccessful. Despite its media presence and statements at each AGM, the Ethos Foundation failed to convince a majority of shareholders. The result is well known.

Today, thanks to Ethos' calculations, some people are discovering that the realised remuneration of Holcim's chairman (and former CEO) for 2024 has reached 45 million Swiss francs if we take into account the conditional share and option awards granted in 2020 and 2022, which have vested at year-end 2024 after a performance period. This represents nearly one million per week, or more than 600 times the average salary in Switzerland. As you may have guessed, the Ethos Foundation has been criticising this remuneration system since 2018, arguing that its leverage effect could potentially lead to highly excessive remuneration.

As is often the case, we were told that it was virtually impossible for the plan to reach such levels. But it has happened, and there is no indication that it will not happen again in future years when other options can be exercised. Others seem to think it is normal for a CEO to ‘cash in’ when the company he runs is doing well. But again, nothing justifies such a high level of remuneration, not even a doubling of the share price.

While some may question the impact of active ownership, it is essential that players such as Ethos continue to engage and denounce abuses. After all, how would companies behave if no one were there to act as a safeguard ? That is why we will continue our work in the future, focusing on constructive dialogue with companies to support them on the path to change and progress, but never hesitating to denounce excesses and abuses. And we hope that more and more shareholders will be there to listen and place their trust in us. Once again, the example of Credit Suisse has shown the importance of good governance.

LATEST NEWS

The Swiss people will vote again on an initiative to force multinational companies to respect human rights and environmental standards in their business activities. The authors of the new initiative for responsible multinationals, launched on 7 January, have submitted no fewer than 287,164 signatures to the Federal Chancellery. As a reminder, a first attempt narrowly failed in November 2020, due to a lack of a double majority of the people and the cantons.

For its part, the Swiss National Bank (SNB) sold all of its shares in Chevron, an American oil company fined $744 million in April for destroying wetlands in Louisiana. Some observers hope to see a more profound change in the institution's investment policy so that it stops investing in companies that cause major damage to the environment and human rights. To be continued.

A the same time, the European Parliament's Committee on Economic and Monetary Affairs would like to further reduce the number of companies subject to EU sustainability reporting and due diligence rules than the European Commission's ‘Omnibus’ proposal. It suggests raising the compliance threshold for the CSRD and the CSDDD to companies with more than 3,000 employees and 450 million euros in turnover.

This view is clearly not shared by the European Central Bank (ECB). While welcoming the objective of simplifying the requirements imposed on companies, the ECB has published an opinion paper warning that certain aspects of the Omnibus proposal could significantly increase risks for investors, the economy and the EU's sustainability objectives. In particular, the ECB recommends not limiting the scope of the CSRD but maintaining sustainability reporting requirements for companies with 500 or more employees.

At the same time, a survey of more than 1,000 European companies reveals that the majority (84%) support the EU's sustainability goals, and 61% say they are satisfied with the CSRD in its current form. Only 25% expressed support for the Omnibus proposal, with 70% saying they were confused, frustrated or disappointed by it. Concerns that the CSRD would harm competitiveness were the least frequently cited of the six potential obstacles. Most companies, including those with between 500 and 1,000 employees, are not in favour of raising the CSRD threshold to 1,000 employees.

In Texas, the Federal Trade Commission (FTC) and the US Department of Justice (DoJ) filed a statement of interest against BlackRock, State Street and Vanguard. These asset managers are accused of engaging in an anti-competitive agreement to reduce coal production as part of an industry-wide initiative for carbon neutrality. In the press release accompanying the statement, the FTC chairman mentioned his desire to ‘end the left's attempt to corrupt financial markets for political and social ends.’ In their defence, the asset managers accused claim that their climate engagement with coal producers has been so limited that it has had little impact in the real world. This is exactly what many NGOs and sustainable finance actors have been criticising them for a long time.

At the other end of the political spectrum, 41 Democratic lawmakers have written to the leaders of several US financial institutions asking for information about their decision to leave the Net Zero Banking Alliance, Climate Action 100+ or the Net Zero Asset Managers initiative. In addition, Senators Elizabeth Warren and Sheldon Whitehouse have launched an investigation into major banks ‘that are capitulating to pressure from Republicans and the fossil fuel industry to abandon their climate risk management strategies.’

STEWARDSHIP SPOTLIGHT

GOOD NEWS

As shown in the fifth edition of the "Point of No Returns" study published by Share Action, major global asset managers are far, very far, from responding adequately and effectively to current climate and social challenges. For example, 87% of the 76 largest global players do not meet more than half of the standards set by Share Action. The British NGO believes that it is up to asset owners to push their managers to take the necessary measures to protect people and the planet for future generations, even if this means ending their relationships with companies that do not meet their expectations in terms of responsible investment.

Follow This spoke at BlackRock's AGM to challenge CEO Larry Fink on his company's climate responsibility. They asked him how BlackRock could reconcile its fiduciary duty to its clients with its continued support for companies whose actions and investments lead to such negative outcomes. This statement was accompanied by the publication of a study showing that after briefly walking the talk by voting in favour of most climate proposals at the 2021 AGM season, which had helped to prompt Chevron and Philipps 66 to set climate targets linked to product use ('scope 3'), BlackRock has since backtracked by voting against most climate shareholder resolutions.

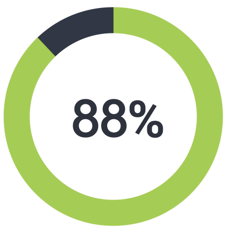
In Australia, 20% of Woodside Energy shareholders voted against the re-election of the chair of the sustainability committee on the board of directors due to a climate strategy deemed insufficient. Shareholders had already opposed the climate transition plan last year (58%), but as it was not put to a vote this year, they directed their dissatisfaction towards the director responsible for sustainability. This is a trend to watch.

Finally, in Switzerland, Temenos shareholders showed their discontent by rejecting the remuneration report for the second year in a row. Put to a consultative vote, it obtained only 44% of the votes. Ethos had recommended voting against it, in particular because the CEO's variable remuneration (USD 8.3 million) is more than nine times his base salary. The board of directors has promised to continue its dialogue with shareholders and to ensure that remuneration practices evolve in line with market expectations and investor priorities. To be continued.

However, the good news is that, according to a paid article in the Financial Times, this is precisely what major European pension funds are tending to do, starting with the UK People's Pension (£33 billion under management), the Dutch SME fund (60 billion euros) and the PGGM group (250 billion euros), which have already withdrawn their funds or placed their asset managers " under surveillance' due to their sustainability performance.

Is this the beginning of a "backlash" against the 'anti-ESG backlash" as some seem to suggest? As a reminder, Ethos and the members of EEP International launched a dialogue campaign a few weeks ago with the main asset managers operating in Switzerland. The aim is to ensure that their voting rights are exercised in accordance with their wishes and sensibilities by asset managers, particularly on issues related to sustainability. This campaign was also mentioned in the FT article.

FIGURE OF THE MONTH



According to Morgan Stanley's 2025 report 'Sustainable Signals: Individual Investors', 88% of investors worldwide are interested in sustainable investing. More than half of those surveyed even said they intended to increase the share of their portfolio allocated to sustainable investing this year because of their strong confidence in its financial performance.

ETHOS NEWS UPDATE

Ethos representatives attended three AGMs in Switzerland in May (Holcim, Swatch and Chubb Limited). At Holcim, our CEO Vincent Kaufmann denounced the excessive remuneration of the former CEO and called on the board of directors to end the option-based remuneration plan that allows such excesses. He also asked Amrize, the spin-off of the US operations whose shareholders have approved the split, to set climate targets that are at least as ambitious as those of Holcim.

At Chubb, our Head of Engagement Matthias Narr spoke up to present and support a shareholder resolution calling on the US insurer, headquartered in Zurich, to disclose its greenhouse gas emissions related to its underwriting, insurance and investment activities. At Swatch Group, our CEO regretted the total lack of consideration for minority shareholders and, as he has done for many years, called for a renewal of the board of directors.

Ethos also supported a shareholder resolution filed by ACCR, among others, at Shell's AGM. This resolution, which called on the company to justify the assumptions underlying its growth strategy in liquefied natural gas (LNG) and to explain how this is compatible with its climate commitments, ultimately obtained more than 20% of the votes. This is a clear call for greater transparency as mentioned by ACCR.

Finally, Ethos has extended its services to foreign investors by being selected by Monega, a German investment fund company, to exercise voting rights on behalf of its sustainable funds.

Press review :

- La Fondation Ethos annonce une collaboration en Allemagne. (L'Agefi, 26 May 2025)
- La famille Hayek restera à la tête de Swatch Group. Interview de notre directeur Vincent Kaufmann lors de l'émission Forum le jour de l'AG de l'entreprise horlogère (RTS, 21 May 2025).
- Die versteckten Millionen-Boni der Schweizer Konzernchefs (Blick 9 May 2025)
- Ethos critique la rémunération du président de Holcim. (L'Agefi, 8 May 2025)
