VAN LANSCHOT KEMPEN

Putting your money where your mouth is during voting season

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Loud protests and activists glued-together are the images we think of these days when it comes to shareholder meetings. But annual general meetings ('AGMs') are, of course, much more than that. Investors can vote on many issues which determine the company's policies and future. After engagement with companies during the year, this is when pen meets paper and we can put our money where our mouth is. What assessment can we make as the 2023 voting season comes to a close?

Contrasting trends

The Van Lanschot Kempen portfolio managers voted at 329 annual shareholders meetings in the first half year of 2023. We voted against management in 15% of the cases, a percentage that is comparable to 2022. About half of the votes cast 'against' were on director election, and one in eight votes 'against' were on compensation related items. A noticeable change compared to previous years was the percentage of agenda items tabled by shareholders, which rose from 2% previously to almost 4.5% in the first half of 2023. We supported 60 shareholder proposals on environmental and social issues.

Climate policy and achieving net zero targets was no less important this year as it was last year. For obvious reasons, this was certainly the case with the big oil and gas companies, which we cover in more detail below. What was also notable however, was that in the United States almost twice as many 'anti Sustainability' (climate, human rights etc.) shareholder resolutions were put to a vote as opposed to in 2022. Here, the absolute numbers are still quite low. Some 80 such proposals were put forward in 2023 altogether, compared to over 40 last year, but the increase is likely a result of the growing 'anti-ESG' movement in the US.

> "The transition to more sustainable energy sources is proceeding too slowly for many

The good news is that support for these proposals is low and declining. The data does not yet cover the entire season, but up to June 1, less than 3% of shareholders supported these proposals, from a meager 3.5% last year.[1]

Fossil frontrunners and laggards

Protests abounded at meetings of major oil and gas majors this year. The transition to more sustainable energy sources is proceeding too slowly for many. Nevertheless, there undoubtedly are certain firms with strong positive points. Norway's **Equinor** serves as an illustration of one of the forerunners in its sector in the transition to a zero-emission future. The company has a clear strategy to have net zero emissions by 2050, including ambitious intermediate goals and investment plans. Equinor, wants to cut its emission intensity by 20% by 2030, compared to 2021. The company is also open to engagement.

1 Harvard Law School Forum on Corporate Governance, June 2023

We take the main oil and gas firms' climate policies and their responses to our engagement during the year into account when deciding on how to vote. When voting, we are more critical of firms that lag behind and/or are unwilling to engage in dialogue and set concrete targets for reducing emissions. If a promising dialogue does emerge, we can adjust our vote accordingly.

Shell is still on the razor's edge in this regard. We supported the climate resolution by NGO FollowThis, which called for Shell to accelerate the transition. However, we abstained on Shell's own climate plan. Unlike most European competitors, the company has no clear strategy for achieving net zero and has set very limited interim targets. But Shell does appear to have become more receptive to dialogue and also increasingly aware of climate risks to its own operations, both for its upstream production, as well as refining and sales (downstream). Therefore, we did not vote against their climate plan, instead choosing to abstain.

Goals and a strategy are essential, but they do not get you all the way. France's TotalEnergies does have a plan to get to net zero by 2050, but appears to lack any real commitment. The company is investing in renewables, but still significantly more in gas. We therefore voted with FollowThis's successful resolution calling to phase out the latter investments and accelerate the transition. This resolution achieved over 30% of the vote, sharply higher than the 17% that the previous FollowThis proposal achieved, in 2021.

One company that is more on track is **BP**. The British multinational has clear reduction targets for 2030 and 2050 and a vision of how they can make the transition. Both 2050 and 2030 targets call for reductions in both Scope 1, 2 and 3 emissions. Investments lag a little behind that, but the company is open to engagement. We abstained on the FollowThis resolution in this case, to make the conversation with BP easier and keep the lines of communication open.

Good governance in the interest of shareholders and company

Climate policy and carbon emissions were not the only topics on the agendas. Good governance issues also stood out in 2023. In general, we pay close attention to issues around management quality, remuneration, diversity and inclusion and board independence. For example, this year we voted in favour of a proposal to split the roles of chairman of the board and CEO at the AGM of **Salesforce**.

Another example of engagement work and voting with regards to sound governance is Japan's **Fujitec**, which had long-standing governance issues. Twice in 2022, we took the unusual step of publicly expressing our concerns about the corporate governance at the escalator and elevator manufacturer through public letters. Among other things, we called for the appointment of independent board members and an improvement in capital allocation.

Last year we voted against the board's reappointment at the shareholder meeting, due to signs of managerial and financial misconduct. Although the reappointment of CEO Takakazu Uchiyama did not gain a majority at the time, the other board members allowed him to retain his position.

In February 2023, however, an activist fund and major shareholder called for a new vote at an extraordinary shareholder meeting, with more success this time. Following the February meeting, a new board of directors was installed, mostly made up of independent members - directors who did not come directly from within the company's own ranks.

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>
> **Jan Willem Berghuis, managing director**

Powerful engagement result

'An independent board of directors gives greater assurance that the interests of shareholders are not forgotten and that there is sufficient knowledge and expertise present to run the company well,' says Jan Willem Berghuis, managing director of the Kempen Small Cap Equity strategy. 'We supported the appointment of the new board and our conversations with them have given us confidence that **Fujitec** will now make the governance and capital allocation improvements that the company needs.'

'It's safe to say that our highly active engagement with the company has been a success. Over the last year, we have spoken to many stakeholders and written public letters. As a consequence, we're starting to see tangible results. In this year's general shareholder's meeting in June, Uchiyama, the ousted CEO who still holds 10% of Fujitec's shares, submitted a resolution for the appointment of yet another new board. This proposal however garnered relatively few votes, meaning that the new board (appointed in February) has made a good start and came out strongly.'

Disclaimer

Other information

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