SHAREHOLDER ENGAGEMENT: A PROMISING SRI PRACTICE

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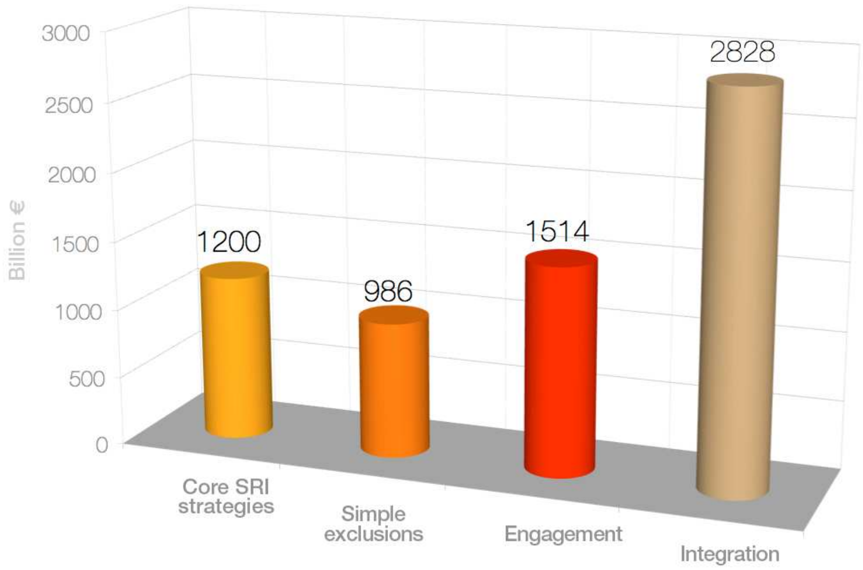
novethic RESEARCH

Contents

Introduction

Anglo-Saxon or Scandinavian investors have a longer tradition of engagement practices. This was confirmed in Eurosif's European SRI Study, conducted every two years. The countries with the most assets subject to an engagement approach are the United Kingdom (EUR 830.1 billion in 2009), the Netherlands (EUR 307.5 billion), Norway (EUR 195.2 billion) and Sweden (EUR 118.8 billion), well ahead of France (EUR 6.1 billion). In Europe, engagement covers a total of EUR 1,500 billion, representing 30% of the EUR 5,000 billion in the "Broad SRI" category.



SRI strategies in Europe in 2009 (Source: *Eurosif 2010 European SRI Study*)

Many French investors claim that they currently practise engagement or are initiating engagement approaches. In 2009, 41% of SRI equity assets held by French investors were supposedly managed based on a so-called engagement approach according to Novethic's annual survey.

Shareholder engagement may be considered a practice to be combined with ESG screening (based on Environmental, Social and Governance criteria) and exclusions. By applying this approach, investors' contact with companies, limited to the flow of information, can be broadened into a two-way dialogue in which investors express their point of view. Engagement can be used to further best-in-class approaches, as the companies selected can nevertheless improve in some areas. It can also build on norm-based exclusions, an approach that identifies objectionable practices.

What exactly does engagement mean to investors, in particular French investors?

The purpose of this study is to examine the concept of engagement, by distinguishing the practices and challenges met in different countries, primarily in Europe. After listing and defining the related terminology, we will explain why investors implement these practices. We will then present the practices currently applied and the hurdles that can hinder their development. This analysis will offer different avenues for advancing engagement approaches.

I.
What is engagement?

Terminology overview

Engagement, shareholder engagement, active ownership, shareholder activism, shareholder dialogue, etc. These terms describe investors' efforts to influence company practices in application of socially responsible investment principles. This variety reflects the lack of consensus as to the terms to be used and the related practices.

A review of websites and interviews held with several organisations (not-for-profit organisations, investment managers, institutional investors, rating agencies) indicates the most commonly used terms: first, "engagement" or "shareholder engagement", ahead of "active ownership" and "shareholder activism".

Notable differences exist and often depend on the type of organisation. Local organisations and NGOs seem to use "engagement" and "shareholder activism" interchangeably, while investment managers tend to avoid using "shareholder activism".

The widespread use of "**engagement**" apparently stems from the variety of practices it encompasses: from requesting ESG (Environmental, Social and Governance) information directly from companies to exercising shareholder rights to influence their practices, to long-term dialogue with management on sustainable development issues.

For most, **active ownership** primarily refers to exercising shareholder rights in general meetings. This aspect is included in "engagement".

The term "**activist**" has a negative connotation for most of the financial firms surveyed because it refers to a "raider", an investor that takes a major stake in a company's share capital and abruptly tries to influence its governance and generate a short-term profit. UK investment company F&C Investments, which openly used to define itself as an "activist", now prefers to be called a "responsible owner".

NGOs, however, are exceedingly more comfortable with "**activism**", associating it with their assertive approach to achieving their agenda. This assertiveness may explain why the term appeals so little to financial firms.

Definition

The definition adopted by Novethic and used in this paper is as follows: shareholder engagement refers to investors' stance on ESG issues, requiring that the companies in which they invest improve their practices. These requirements take the form of a structured approach based on direct dialogue with the company and long-term monitoring. Investors can use different pressure tactics if the dialogue approach does not prove effective: public disclosure on the progress of the engagement approach and the company's failings on extra-financial issues, impact on management that may go from a freeze to divestment or the exercise of shareholder rights, i.e. questions in general meetings, voting against proposed resolutions, support or filing external resolutions.

II.
Multiple objectives

Different investors are motivated by different topics to practise shareholder engagement.

Different motivations depending on the players and the context

Optimising long-term value

For many institutional investors and investment managers, the primary objective of engagement is to preserve or improve the company's long-term value. Its purpose is to correct existing problems, prevent future risks or enable the company to seize future opportunities.

The Californian pension fund CalPERS states that "its engagement process has the overarching objective of improving alignment of interest... (which) will enable the fund to fulfill its fiduciary duty to achieve sustainable risk adjusted returns". It is applied to financially under-performing companies, emphasising problems relating to governance (independence and diversity of the board of directors, compensation, etc.), as well as to environmental and social factors. The engagement-focused UK service company, Hermes EOS, adopted a similar approach, targeting companies based on governance and financial factors.

FairPensions recently mobilised BP and Shell shareholders (see box on pp. 22-23) in its tar sands campaign, attesting to the growing awareness of the long-term financial risks of some extra-financial issues.

Managing reputational risk

Some investors, mainly institutional investors, practise engagement to protect against reputational risks. In this case, engagement can be an extension of a norms-based approach which identifies the companies accused of violating treaties or international standards, such as the ILO conventions.

Every year, the *Fonds de Réserve pour les Retraites* (French Pensions Reserve Fund or FRR) sends letters to the management of companies that represent major reputational risks, which its supervisory board and responsible investment committee are seeking to prevent. As such, the FRR solicits explanations about accusations or observations and about the preventive measures that should be implemented with a long-term perspective. The FRR selects these companies through the "Convention Watch" service offered by the extra-financial rating agency EIRIS (see box on p. 12) and through peer dialogue.

Activist engagement

NGOs and organisations take more of an "activist" engagement approach. Engagement provides an additional means to accomplish their broader mission: defending human rights, protecting the environment, reducing poverty, etc. Amnesty International notably leverages engagement to fulfil more far-reaching purposes, as illustrated with the Vedanta affair. After publishing a report on the mining company's human rights violations on local populations in the state of Orissa, India, Amnesty contacted about sixty investors, encouraging them to exercise tougher engagement practices. The NGO also asked questions at the general meeting and submitted a petition to the company's executives.

Unions and employee shareholder representatives also take this type of approach to defend employees' rights. For example, the Service Employees International Union (SEIU), which accused Sodexo of engaging in anti-union activities in the United States, attended the group's annual general meeting in 2010 to call shareholders' attention to these concerns. Similarly, the central company committee and the employee investment fund Total Actionnariat France are accustomed to submitting resolutions at Total's general meetings.

As for investors, the Dutch bank Triodos touts itself as a "sustainable bank", with a positioning between ethics and activism. Improving companies' ESG practices is an integral part of its investment objectives, and any resulting financial impact is taken into account but is not a priority.

Except for actors like Triodos, NGOs' objectives are very different from those of investors because maintaining shareholder value is not a factor. However, they can collaborate because their respective interests converge. As a result, they can establish engagement-driven partnerships. The partnership between Greenpeace and NRDC with Phitrust (see box on p. 20) is the first of this kind in France.

A propitious environment

Investors' voting and engagement practices are also affected by the regulatory environment and voluntary initiatives in different countries.

In France, regulations encourage investment managers to exercise their voting rights and transparency on how they exercise these rights. This explains why voting practices are relatively advanced in France compared with those observed abroad. Upstream from the exercise of voting rights, the general regulations of the *Autorité des Marchés Financiers* (French equivalent of the UK FSA, referred to as the AMF) require French investment managers to set out voting principles according to the type of resolutions submitted at general meetings. Furthermore, pursuant to Article L.533-22 of the French Monetary and Financial Code (12 April 2007), French investment managers are required to exercise voting rights attached to securities held by the mutual funds that they manage and report on their voting practices or to explain why if they do not exercise these rights. Nowadays, it is rare to find firms that do not exercise their voting rights, at least on a national scale.

In the United Kingdom, the Financial Reporting Council published the UK Stewardship Code in July 2010. The purpose of this code is to improve the quality of corporate governance. Signatories are encouraged to disclose their policies on voting, engagement and conflicts of interest, to monitor investee companies in order to determine when engagement practices should be implemented, to establish guidelines when dialogue fails and to report on voting and engagement on a regular basis. Although the UK Stewardship Code is a voluntary approach and the object of some criticism[1], already more than a hundred investment managers and about twenty institutional investors have signed, and the number keeps rising. Voting and engagement practices are expected to become increasingly widespread in the United Kingdom, as is investor transparency in these two areas. The Code could also have an impact on non-UK investment managers

[1] See the report published by FairPensions: "UK asset managers' public disclosure practices on voting & engagement", December 2010.

through the bids in which they participate and thus encourage them to structure their engagement practices. Unlike French regulations, this Code has the added benefit of applying to both investment managers and institutional investors.

On a European scale, a survey taken in June 2010 by the European Commission on governance at financial institutions revealed that a large majority of respondents favour the mandatory disclosure of investor voting policies and reports and the adoption of a best practices standard for investors, whether national, European or international. Although the UK Stewardship Code has often been mentioned as a model, the European Commission is now considering implementing a European code in order to avoid a variety of different national codes.

Finally, the growing reach of the United Nations Principles for Responsible Investment (PRI) also favours the engagement approach taken by PRI signatories in application of the framework's second principle: "We will be active owners and incorporate ESG issues into our ownership policies and practices."

Two different objectives

Whatever the objective, engagement with companies may include pressure to improve ESG practices or more simply requests for further information on ESG practices or issues.

Increasing visibility about risks

Investors request information to use in their analyses and to fill gaps in companies' current CSR (or ESG) reporting. This argument is maintained by Aviva Investors, which uses engagement when the information disclosed by the company is not adequate to measure its extra-financial performance.

In the same vein, the Forum for Responsible Investment (FIR) launched CorDial (for "Corporate Dialogue"), a "dialogue platform" in early 2010. Under this initiative, proposals on two themes are expected to be published in 2011: changes in companies' social policy during the crisis and general meetings. About thirty companies, although at first reluctant, agreed to meet CorDial's two-member working groups (a representative from an investment manager and a representative from another stakeholder). This approach has the advantage of facilitating direct relations between analysts or managers and the company's operational staff in charge of ESG issues. FIR members launched CorDial in order to obtain information on companies' ESG risks that was not necessarily available in their public disclosures. CorDial does not act as a shareholder coalition and is not tasked with defining voting policy to be shared among its members or proposing draft resolutions.

Some engagement approaches go a step further, demanding that the information requested be made public. For example, the "Say on Pay" campaign initiated by Ethos in Switzerland (see box on p. 24-25) requires the publication of reports on executive compensation. Another example is the FairPensions campaign to ask BP and Shell to publish a report analysing the risks of tar sands exploitation. This type of initiative attracts the attention of other company shareholders and stakeholders and can lead to pressure to improve practices thus exposed to criticism.

Improving company practices

In Europe, engagement aimed at improving company practices most often involves governance issues. In the past few years, they have primarily pointed to the separation of the roles of chairman and chief executive officer, the link between executive compensation and company performance and the independence of directors.

More recently, in 2009, CCR Asset Management launched the CCR Actions Engagement Durable fund. Its scope extends beyond governance to the company's sustainable development strategy, equal opportunity or human rights. The role of engagement is to "influence and note any tangible changes in ethics, social, environmental and governance practices". A company's ESG practices are analysed mainly to fuel dialogue with its management. Detailed quarterly reporting specifically identifies the issues and improvements to be made for each company in the portfolio. It also describes the content of the ad hoc meetings. (About fifteen took place in the second and third quarters of 2010).

III.
Overview of engagement practices

The engagement process can stretch over several years and include a number of phases, from requests submitted to companies verbally or in writing to the exercise of shareholder rights, to public disclosure. It is rarely linear. The main phases identified and described below may occur in a different order depending on the firm or organisation and the reaction of the companies in question. The way different investors implement these practices, particularly public disclosure and the filing of resolutions, varies considerably from one player to another. Lastly, although French investment managers have defined official voting policies, structured engagement approaches remain more common with Anglo-Saxon or Scandinavian investors.

Company dialogue

Identifying engagement themes

The first step is to identify engagement themes and each company's questionable practices. This research may be done specifically for engagement purposes, as is the case at the Government Pension Fund - Norway where it is the role of one full-time employee. Otherwise, it may be encompassed into existing SRI research. At Aviva Investors, F&C, Ethos or Axa IM, a single team is in charge of extra-financial research, exercise of voting rights and engagement.

In this process, SRI analysts often question the company on certain ESG practices. All SRI approaches include this research and ESG analysis phase. It can be used to initiate dialogue, but is only a first step. Dialogue only constitutes engagement if it sets specific improvement objectives for the company.

Several sources are available to determine engagement topics and to target companies. Society provides a major source of information, through NGOs active in the topic chosen or unions well-informed on company labour issues.

For example, several environmental NGO reports pinpointing the harmful effects of palm oil production, in particular deforestation and impact on climate change, helped raise investors' awareness.

As such, the UK investment manager F&C has been in dialogue with western companies since 2002 about their palm oil supply chain and the banks that finance this business. The recent report published by Greenpeace prompted F&C to heighten its action in 2010 by initiating dialogue directly with several palm oil production companies in Indonesia and Malaysia. In 2010, the investor also persuaded HSBC to divest from Sinar Mas, the main company incriminated in the report.

Extra-financial rating agencies also provide a wealth of information and sometimes offer specific engagement services (see box below).

Firms with dedicated engagement services such as Hermes EOS and F&C turn to their clients to understand their interest in a number of areas.

Swiss investment manager Pury Pictet Turrettini & Cie S.A. bases the engagement approach adopted for two of its funds on the Global Compact, encouraging companies to align their standards of transparency on ESG issues accordingly.

Lastly, the PRI's "Engagement Clearinghouse" forum is designed to help investors draw the attention of other shareholders to specific issues and promote collaborative action.

Extra-financial analysis agencies use their research to offer engagement services

Recently, the UK agency EIRIS formally released its "ESG Engagement Service" offer. The service provides investors with guidance in their engagement strategy, recommending one of two specific approaches: focus engagement on a key ESG aspect such as climate change, corruption, etc. or target companies accused of breaching international standards. The latter approach builds on an existing programme, "Convention Watch", a tool used to identify such companies and analyse how they react to the allegations. Based on this analysis, EIRIS offers recommendations that the investor can put forward to companies.

In Sweden, Ethix SRI Advisors offers a similar analysis service, "Norm-based screening", which identifies companies guilty of violating a Global Compact principle. Analysis results can notably be used to select the companies or themes that will be emphasised within a more far-reaching engagement and dialogue service offered by the agency.

These services assist investors in defining their engagement strategy (private dialogue, coalition, public disclosure, etc.), their objectives and their application. For instance, they guide investors in writing the letters addressed to companies, organising appointments with management, collaborating with other investors, drafting resolutions (Ethix), reporting on engagement, etc.

The services offered by extra-financial analysis agencies provide investors with both specific information on companies' ESG practices to develop their approach and assistance throughout the process. However, investors must be fully committed, as the approaches are developed on their behalf. These offers are developed based on explicit demand from investors, which remains extremely low in France.

Addressing requests to companies

Most often, investors express their requests for improvement in ESG practices at in-person or telephone meetings with company executives or operational managers from the relevant field (human resources, environment and safety, etc.). Meetings or company roadshows represent excellent opportunities to discuss these issues. Otherwise, specific one-on-one meetings with company management can be requested.

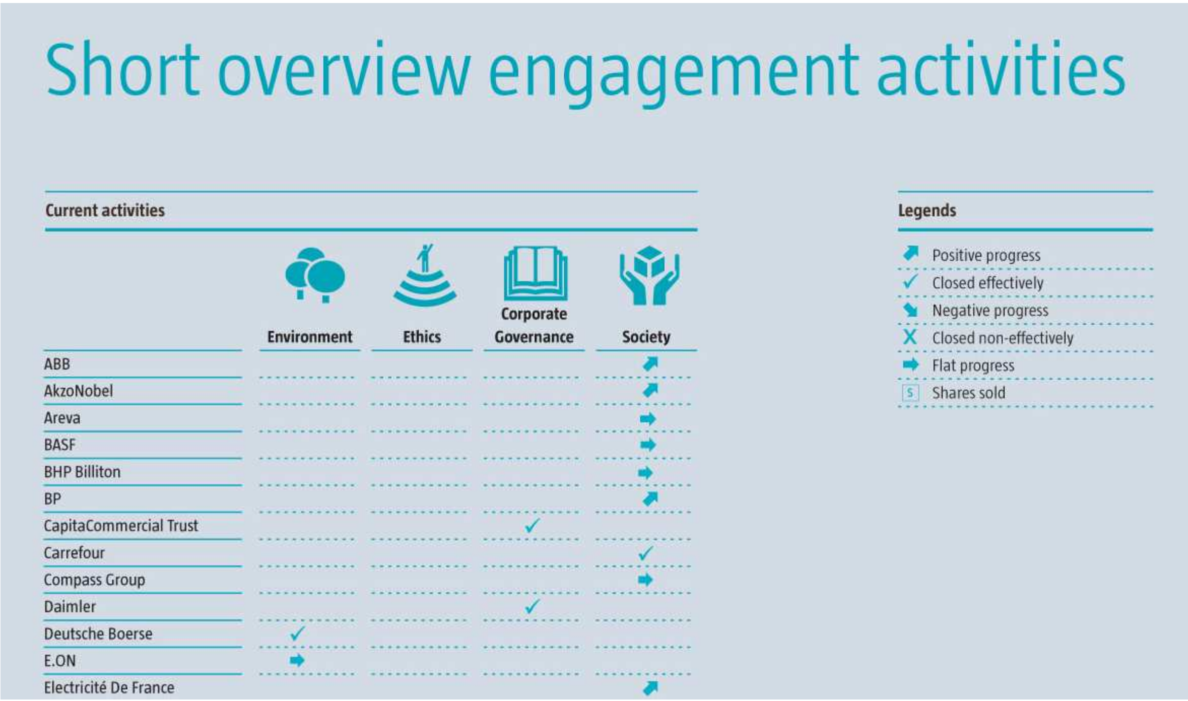
Investors such as Aviva Investors or Ecofi Investissements send letters signed by both the chairman of the investment management firm and its ethics committee and sent directly to the company chairman or chief executive officer for greater impact. Sending letters to management is a way of making dialogue more "official", clearly laying down the investor's CSR objectives for the company. This method is not always the first used, but it offers the investor a form of "traceability" for its engagement approach. It is the main means of communication used by Robeco, 49% of the time, according to its reporting released in the last quarter of 2009.

Other investors refuse to apply this method of setting objectives for the company, deemed too direct.

Long-term monitoring

Once the request is submitted to the company, the investor should be able to monitor the solutions it offers over time and determine any future action that may be needed. This monitoring can be qualitative or based on specific indicators used to measure the effectiveness of the approach more accurately.

Several foreign investment managers report on this form of monitoring. For example, in its quarterly client reporting, Aviva Investors describes the most recent contacts made in application of its current engagement programme. It specifies the engagement topic, the solutions offered by the company and planned measures if objectives are not fully met. In its quarterly reporting, Henderson Global Investors presents its engagement initiatives by company, according to the progress made in its programme: "On-going engagement", "Unsuccessful", "Partial success", "Significant success" or "Complete success". Robeco reports with a more concise overview, listing companies involved in its engagement programme and a visual indicator of the progress made with each company: positive, flat or negative progress, effective or non-effective conclusion of process, divestment.



Short overview engagement activities

Current activities

	Environment	Ethics	Corporate Governance	Society
ABB				↗
AkzoNobel				↗
Areva				→
BASF				→
BHP Billiton				→
BP				↗
CapitaCommercial Trust			✓	
Carrefour				✓
Compass Group				→
Daimler			✓	
Deutsche Boerse	✓			
E.ON	→			
Electricité De France				↗

Legends

↗	Positive progress
✓	Closed effectively
↘	Negative progress
X	Closed non-effectively
→	Flat progress
S	Shares sold

Extract from Robeco's responsible investment report (Q4 2009)

Transparency

Disclosure of engagement policy

Disclosure of a clear engagement policy first and foremost fosters the transparency of investment managers and institutional investors on their objectives. It also serves as a reference in the event of ineffective dialogue.

Transparency also strengthens the credibility of engagement programmes toward investment managers' stakeholders and, most of all, their clients.

For example, Australian investment manager Colonial First State Global AM outlines its approach in its voting and engagement policy: identification of ESG issues for which engagement may be used, i.e. those with a potential material impact on the company's profitability; the process, focused on direct contact with the company; measures taken in the event of an unsatisfactory response from the company, ranging from a downgrade by the investment manager to the sale of the assets held.

Phitrust Active Investors breaks down its process into three steps: selecting initiatives, presenting proposals to companies and acting in general meetings. Details on these three steps are provided on the investment manager's website, noting that the first two steps are not made public, and the third is only implemented if non-public efforts fail.

The investors that are most active in engagement are those whose engagement policies are the most structured and transparent.

Communication on approaches

Investors that practise engagement are encouraged to report on their progress and results to boost objectiveness and credibility, thus giving the approach greater impact. For example, merely naming the targeted companies in a public divestment can cause them to be more receptive to investors' engagement campaigns. CalPERS has long practised its "name and shame" policy. Although the pension fund now favours private dialogue, it has not hesitated to attack Apple publicly for the way it handles board elections. Some investors remain reluctant to name targeted companies or even disclose their approaches in general, advocating private dialogue instead.

Although some actors communicate about their approaches, this tends to be the case in France, notably because public disclosure is associated with activism. The informal and private nature of discussions is deemed more effective as it establishes trust between investors and investees and offers the investment manager greater freedom of expression.

Edmond de Rothschild Asset Management (EdRAM) chose to adopt an engagement approach exclusively for the Tricolore Rendement fund, one of the largest funds invested in shares of SBF120 companies, with EUR 2.45 billion in assets at the end of 2010. A targeted engagement approach, based on private dialogue and the exercise of voting rights, is applied for companies with the lowest extra-financial ratings. In its engagement reporting, EdRAM presents some examples of the dialogues in progress without naming the company involved. EdRAM's position is explicitly set out in its engagement policy: "EdRAM advocates constructive dialogue and active involvement in voting policy over activism."

Agicam, the investment manager of the group AG2R-La Mondiale, went a step further by publicly reporting on its engagement initiatives in 2009, naming the companies targeted. Most of the initiatives listed generically refer to "dialogue about the group's ESG issues" and produce results and responses from the issuer that are "difficult to measure", revealing that the approach is still too recent to publish any tangible results. Nevertheless, the reporting does provide a clear assessment of the engagement approach implemented over the year.

Investment managers with a longer history of engagement, such as F&C and Henderson mentioned above, consider that this type of communication offers a means to impact companies and report to their clients on their own activities.

Exercising voting rights

General meetings of shareholders used to be considered sort of "trade repositories" but are now seeing sometimes very low approval rates for resolutions. For investors, the exercise of their voting rights is gaining visibility and sometimes involves negotiations upstream and downstream of general meetings.

French investment managers generally ahead of the rest

Due to regulations, French investment managers' practices in terms of the exercise of voting rights and transparency on this voting policy seem rather advanced compared with their UK counterparts, for example.

Most French investment managers publish their voting policy on their website. They notably provide varying degrees of detail on the scope within which voting rights are exercised and the firm's positions on the resolutions most commonly submitted to a shareholder vote. Some firms such as EdRAM go so far as to publish a detailed voting policy, including the resolutions involving environmental and social issues and stakeholders. This may be in anticipation of their attendance at French general meetings.

Like the engagement policy, a voting policy defines a decision-making framework for issuers and clients. For some investors, voting policy also provides the opportunity to initiate dialogue with companies prior to general meetings. At the beginning of every year, F&C sends a letter to the chairmen of all the companies in which the firm is invested, presenting the investment management company and its voting policy. Some companies are even questioned about company-specific ESG practices. Issuers are asked to reply within a few weeks if they do not approve the policy described.

A growing number of French investors, 40% according to the survey conducted by the *Association Française de Gestion financière* (French Asset Management Association or AFG) on the *Exercise of voting rights by investment managers in 2009*, notify companies of their plans to vote prior to general meetings This is generally on a case-by-case basis. In 2006, Amundi implemented a "shareholder dialogue" process, which consists in notifying companies, prior to the meeting, of certain resolutions for which the firm would submit a negative vote. A notification letter is sent to the companies concerned to initiate dialogue on the issues identified. Originally, this procedure was applied to SBF120 companies but has since been extended to about a hundred European companies. One hundred thirty-three notification letters were sent for the 2010 annual general meetings. More than half resulted in dialogue with the company. Thanks to additional information provided on resolutions, commitments made by the company or even amendments to the resolutions resulting from dialogue, Amundi altered its voting strategy in about one-third of the cases.

A more thorough review of the resolutions undoubtedly explains the surge in protest voting. According to the Proxinvest report on 2009 annual general meetings of French and European companies, the average shareholder disapproval rate rose from 4.84% on the CAC 40 in 2008 to 5.90% in 2009. Moreover, France holds the record for the largest number of rejected resolutions in Europe. While 90% can already be considered a poor approval rate, the terms of some Total directors were renewed at historically low majorities in 2009: 56.38% for Michel Pébereau, 57.27% for Anne Lauvergeon, etc.

The AFG survey also showed that its members, on average, voted against 18% of the resolutions in which they participated. A few investment managers stand out in voting against resolutions: Phitrust Active Investors, for example, rejected 42.3% of the proposed resolutions, Ecofi Investissement 34% and Meeschaert AM 33.3% (see appendix on p. 33).

Except for Meeschaert AM, which published the details on its votes at each general meeting, most French investment managers only report the average statistics of their voting strategy. UK investment managers, notably in application of the UK Stewardship

Code, provide much more detail on their voting. For investment managers that vote in several thousands of general meetings every year, publishing all votes makes the information impossible to follow. Consequently, a few investors have adopted a clearer reporting structure that covers targeted information. Every quarter, the Henderson Global Investors voting report provides details on the resolutions it opposed or for which it abstained from voting. The report also specifies the firm's reasons for its vote on shareholder resolutions. CCR AM reports in the same detail for its SRI fund. Amundi also moved in this direction in its 2009 report on the exercise of voting rights, mentioning certain shareholder resolutions that it supported and represented its views on ESG issues.

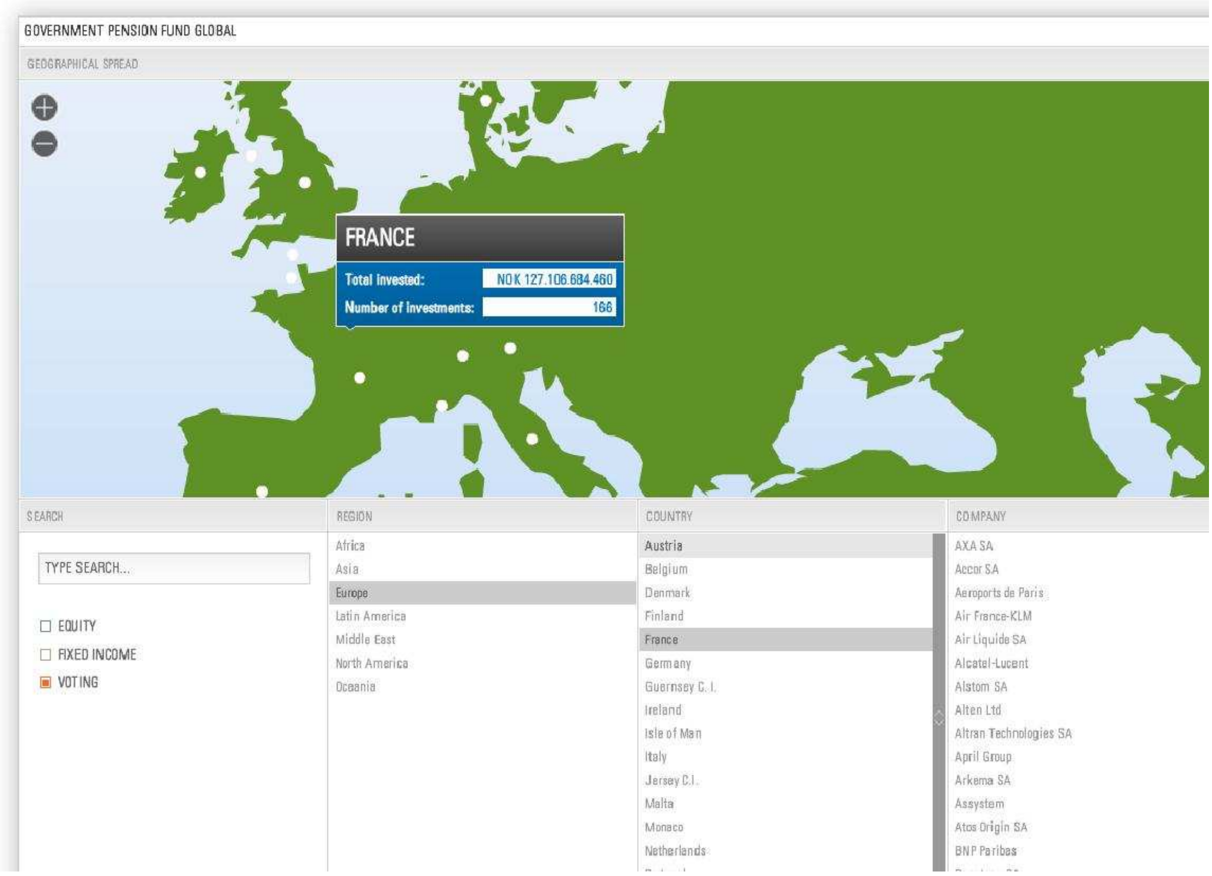
Institutional investors with varying practices

Investment managers increasingly seem to be structuring their voting practices, as encouraged by regulations and industry initiatives. But where do institutional investors, which are not subject to the same requirements, stand in terms of exercising their voting rights?

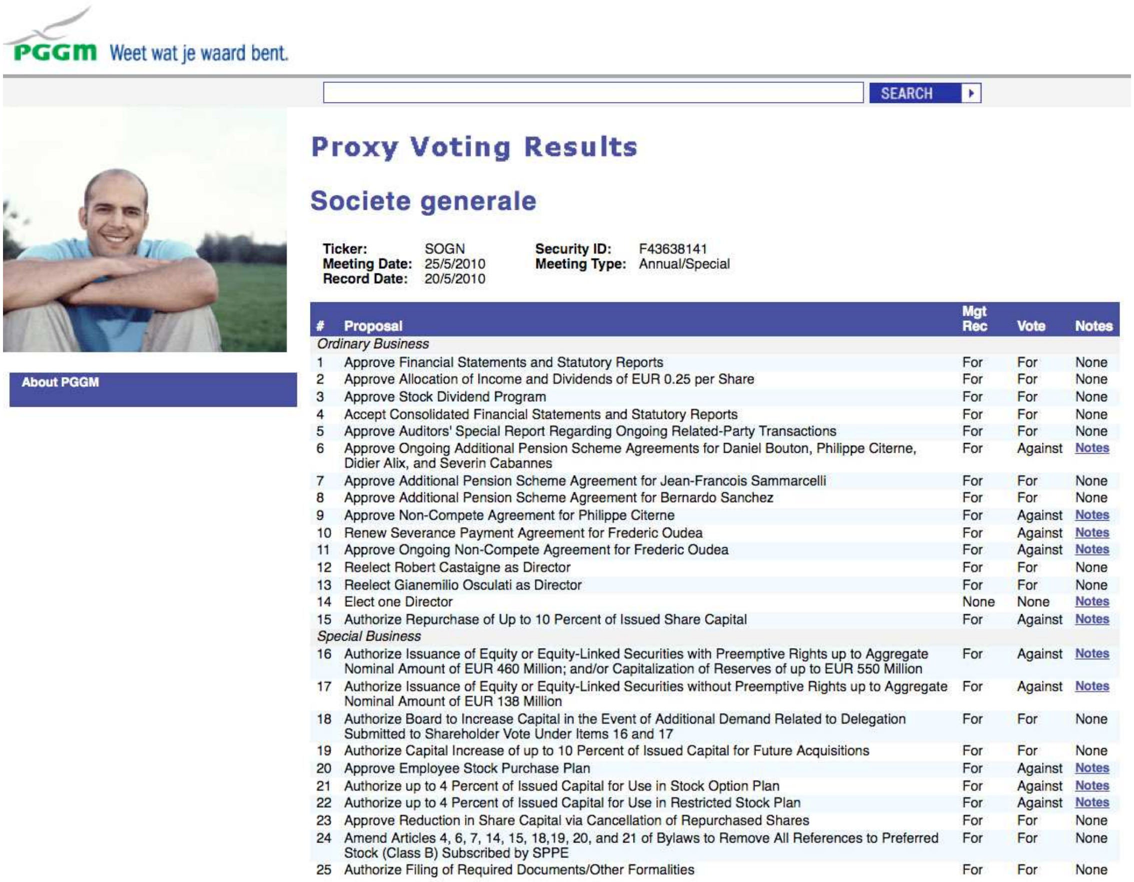
No French institutional investors disclose any specific voting information from their in-house management. A few investors have implemented procedures to monitor their votes. CNP Assurances set a target to dialogue with at least 10% of companies with a resolution that the investor intends to oppose.

In the case of delegated management, institutional investors generally seem to follow the voting policy of the investment manager under mandate. The *Fonds de Réserve pour les Retraites*, whose managers exercise voting rights, stands out as an exception. The FRR has a public voting policy that is updated every year and disclosed to its managers. The fund also checks their voting strategies through a voting platform, applying greater vigilance to its largest holdings. Where necessary, the FRR coordinates voting strategies to ensure consistency. The FRR's experience has shown how difficult it can be to coordinate the voting strategies of the managers under mandate, especially as deadlines are often very tight.

In contrast, in the United Kingdom and Scandinavian countries, several institutional investors like the Norwegian Government Pension Fund disclose details on their votes for each general meeting on their websites. The asset manager of the Dutch pension fund for healthcare professionals, PGGM, also has a website devoted to the exercise of its voting rights. Details of its votes have been provided since 2008, by general meeting and by resolution. Some resolutions include notes explaining PGGM's position. Several UK pension funds also publish the different voting reports from their delegated managers on their website.



Website of the Norwegian Government Pension Fund – Global dedicated to investments and voting. The list of resolutions and voting decisions are displayed by selecting the companies listed.



Proxy Voting Results

Societe generale

Ticker: SOGN
Meeting Date: 25/5/2010
Record Date: 20/5/2010
Security ID: F43638141
Meeting Type: Annual/Special

#	Proposal	Mgt Rec	Vote	Notes
	Ordinary Business			
1	Approve Financial Statements and Statutory Reports	For	For	None
2	Approve Allocation of Income and Dividends of EUR 0.25 per Share	For	For	None
3	Approve Stock Dividend Program	For	For	None
4	Accept Consolidated Financial Statements and Statutory Reports	For	For	None
5	Approve Auditors' Special Report Regarding Ongoing Related-Party Transactions	For	For	None
6	Approve Ongoing Additional Pension Scheme Agreements for Daniel Bouton, Philippe Citerne, Didier Alix, and Severin Cabannes	For	Against	Notes
7	Approve Additional Pension Scheme Agreement for Jean-Francois Sammarcelli	For	For	None
8	Approve Additional Pension Scheme Agreement for Bernardo Sanchez	For	For	None
9	Approve Non-Compete Agreement for Philippe Citerne	For	Against	Notes
10	Renew Severance Payment Agreement for Frederic Oudea	For	Against	Notes
11	Approve Ongoing Non-Compete Agreement for Frederic Oudea	For	Against	Notes
12	Reelect Robert Castaigne as Director	For	For	None
13	Reelect Gianemilio Osculati as Director	For	For	None
14	Elect one Director	None	None	Notes
15	Authorize Repurchase of Up to 10 Percent of Issued Share Capital	For	Against	Notes
	Special Business			
16	Authorize Issuance of Equity or Equity-Linked Securities with Preemptive Rights up to Aggregate Nominal Amount of EUR 460 Million; and/or Capitalization of Reserves of up to EUR 550 Million	For	Against	Notes
17	Authorize Issuance of Equity or Equity-Linked Securities without Preemptive Rights up to Aggregate Nominal Amount of EUR 138 Million	For	Against	Notes
18	Authorize Board to Increase Capital in the Event of Additional Demand Related to Delegation Submitted to Shareholder Vote Under Items 16 and 17	For	For	None
19	Authorize Capital Increase of up to 10 Percent of Issued Capital for Future Acquisitions	For	For	None
20	Approve Employee Stock Purchase Plan	For	Against	Notes
21	Authorize up to 4 Percent of Issued Capital for Use in Stock Option Plan	For	Against	Notes
22	Authorize up to 4 Percent of Issued Capital for Use in Restricted Stock Plan	For	Against	Notes
23	Approve Reduction in Share Capital via Cancellation of Repurchased Shares	For	For	None
24	Amend Articles 4, 6, 7, 14, 15, 18,19, 20, and 21 of Bylaws to Remove All References to Preferred Stock (Class B) Subscribed by SPPE	For	For	None
25	Authorize Filing of Required Documents/Other Formalities	For	For	None

PGGM's website dedicated to voting

Mitigating the absence of votes on environmental or social issues

With no environmental or social resolutions, particularly in Europe, many of the investors surveyed assert that it is difficult to use their voting rights to influence companies on these aspects.

Aviva Investors decided not to wait for this type of resolution to be put forward in general meetings by opposing the resolutions submitted to shareholder vote. In the second half of 2010, Aviva voted against 38 resolutions and abstained from voting on 28 others involving the approval of the annual financial statements. This high number is due to Aviva's refusal to approve the financial statements of a company to mark its disagreement with its ESG practices. When the annual financial statements are not submitted to a vote at a general meeting, Aviva refuses to grant discharge to directors or opposes the renewal of their term. Many investors believe that opposing the approval of the financial statements is "brusque". Others have doubts as to the effectiveness of this approach. Although Aviva would prefer to vote on resolutions ad hoc, this policy has a significant impact on companies. By specifically explaining the reasons for these votes, about 40% of them foster a change in company practice within one year.

Involvement in general meetings

Questions at general meetings

The shareholders of French companies are not subject to any minimum shareholding restrictions and can submit written questions prior to the general meeting or oral questions during the debates. While the dialogue that precedes the meeting generally takes place with the company's operational managers, this type of questioning more effectively draws the attention of the board of directors to its ESG practices. However, executives reserve the right to select only some written questions if there are too many and also control the public replies given at the general meeting.

Although, on the whole, the French investors surveyed are rather sceptical about the impact of these questions, several foreign institutional investors apply this method on a regular basis. For example, Robeco publishes on its website the full text of the questions asked at general meetings and the company's response. Triodos sends the company the questions that it intends to ask at its general meeting beforehand. This allows the company the time to reply and sometimes results in direct dialogue. Nevertheless, the bank insists on asking these questions at the general meeting to inform the other shareholders of them. Hermes EOS took the opportunity of the most recent general meeting of Société Générale to assert its disapproval of the refusal to separate the roles of chairman and chief executive officer. At France Telecom's 2010 annual general meeting, several written and oral questions were submitted on greenhouse gas emissions, employment of seniors and social performance indicators.

In the past five years, the number of questions on CSR issues at general meetings remained very limited in France, according to Martial Cozette of the CFIE (French information centre on corporations). However, at a conference of the ORSE (International Organisation of Employers) last October, Daniel Lebègue pointed out that ESG issues raised great interest at 2010 general meetings. Martial Cozette stated that although there were not many more ESG questions submitted, they were at least better prepared by the shareholders and more precise, giving them greater impact at meetings. This was confirmed by Loïc Dessaint of Proxinvest.

Filing resolutions

Pursuant to Article L.225-105 of the French Commercial Code, the shareholders holding a 5% stake in the company's share capital are entitled to submit draft resolutions to be included on the general meeting agenda of companies with share capital of less than EUR 750,000. Above this limit, the threshold decreases as the company's capital increases. For the largest French market capitalisations, it stands at 0.5% of share capital. Once included on the agenda, these resolutions are submitted to a shareholder vote, and the outcome is binding.

The threshold for filing partly explains why, in practice, few external resolutions are filed in France, except by Phitrust Active Investors (see box below), and why most of the resolutions submitted to vote are proposed by the companies.

Phitrust Active Investors filed the first environmental shareholder resolution in France

Like other French investment managers, Phitrust dialogues with companies on ESG issues, participates in general meetings and exercises its voting rights. However, its engagement process does not stop there: "If private initiatives do not produce tangible results, we consider public initiatives". Phitrust regularly asks questions at general meetings and has filed twenty resolutions in six years. Support from other investors has enabled the firm to raise the necessary capital. To date, these resolutions have exclusively involved governance, Phitrust's main focus: more specifically, shareholders' rights, the separation of the roles of chairman and chief executive officer, the independence of boards of directors, transparency on executive compensation, etc. Phitrust, along with the support of other investors, would like to file an environmental resolution, a first in France, at Total's general meeting on 13 May 2011 in partnership with Greenpeace France and the Natural Resources Defense Council, a US-based environmental action group. Similar to those filed by FairPensions in the United Kingdom at BP's and Shell's general meetings, the resolution is expected to request further disclosure from Total on the environmental and social risks involved in its tar sands projects in Canada and their long-term financial impact.

In the United States, the threshold for filing resolutions is considerably lower, making it common practice to file resolutions. Shareholders that hold USD 2,000 in shares for at least one year can submit a resolution. However, the resolutions are only advisory in nature. Shareholders often file the same resolution at two consecutive meetings when the response from management is deemed inadequate. As such, some investors believe that the success of shareholder resolutions in the United States should not be measured in terms of the voting rate but rather the number of resolutions withdrawn prior to the general meeting due to a positive response from the company in question.

Many resolutions are filed by investment managers and institutional investors as well as religious organisations. The Interfaith Center on Corporate Responsibility (ICCR), which covers different religious denominations and funds in the United States, filed more than 300 resolutions in 2010 alone and engaged in dialogue with nearly 250 companies on topics ranging from human rights, climate change, governance to transparency on derivatives. About a dozen resolutions were withdrawn prior to general meetings following a satisfactory outcome from dialogue with the company.

In the United Kingdom, the rules are different still: 100 shareholders that own at least GBP 100 each or shareholders that own 5% of voting rights are allowed to file a resolution. Some resolutions, such as voting on the remuneration report are advisory in nature, while others are binding.

Lastly, in Switzerland, shareholders that own shares totalling a nominal value of CHF 1 million are entitled to require including an item on the agenda. The Swiss Code of corporate governance best practices encourages companies to amend their by-laws in order to lower this threshold. This means that shareholders that wish to exercise their rights obtain an amendment to company by-laws if this threshold is too high.

In addition to the patchwork of regulatory contexts, not all investors perceive the filing of resolutions in the same way. For some, it is the last stage in an engagement process, applied when all other means have failed. Other investors, such as the Climate Advocacy Fund (see box below) or CalPERS, use the option of filing resolutions to initiate dialogue. Among the 32 resolutions on governance filed by CalPERS in 2007 and 2008, 25 were withdrawn prior to the general meeting thanks to a positive response from the companies concerned.

These examples, like that of FairPensions (see box on p. 22-23), show that a resolution does not necessarily need to be approved by the majority of shareholders or even submitted at the general meeting to have an impact. Given the sometimes relatively high capital stake required to file a resolution, simply filing a resolution reflects its importance for some shareholders.

Climate Advocacy Fund, engagement initiated by filing a resolution

The Climate Advocacy Fund was launched in July 2010 by investment manager Australian Ethical Investment in partnership with The Climate Institute. Its purpose is to influence Australia's biggest companies to better manage climate change risk through shareholder resolutions. Australian Ethical Investment targeted four companies that emit the most CO_2 and filed resolutions with them.

The general meetings of two of these companies, Paladin Energy Limited and Aquila Resources Limited, took place in November 2010. In both cases, the resolution requested the disclosure of detailed information on the company's CO_2 emissions to enable investors for a better analysis of its strategy and outlook. Both companies sent draft resolutions to all shareholders but refused to include them on the general meeting agenda. They did however commit to disclosing further information on their CO_2 emissions, Aquila Resources in 2011 and Paladin Energy in 2012.

Joining forces through networks and coalitions

Investors commonly pool their engagement efforts, both to reduce costs and to increase the potential impact of their action. Collaborative engagement approaches are typically less costly and more effective. They have greater influence due to the number of participants and proportion of assets.

The PRI (Principles for Responsible Investment) call on investors to "participate in collaborative engagement initiatives". The PRI Engagement Clearinghouse is an online forum for signatories seeking to garner support for their resolutions or to form or participate in shareholder coalitions. According to Ethos, the PRI's tools contributed to the success of its "Say on Pay" campaign (see box on p. 24-25). However, other investors believe that there are too many participants and the information provided on the platform is too dense, thus slowing engagement programmes and making them more complex.

Investors can also – discreetly if they wish – support another entity, such as the Climate Advocacy Fund, Phitrust or Ethos. This method also helps reduce material costs (analysis and engagement monitoring) and their exposure (for investors that prefer indirect dialogue with companies) while affording the engagement approach greater influence.

FairPensions mobilises all stakeholders

The UK-based NGO FairPensions promotes SRI among pension funds and institutional investors by publishing recommendations, practical guides, and so on. Campaigning in specific areas is also key to its strategy. About ten international NGOs (Amnesty International, Greenpeace, Oxfam, WWF, etc.), unions, religious organisations and even an extra-financial rating agency (EIRIS) are members of FairPensions and offer their support to these campaigns. Set up in 2005, FairPensions has already led several campaigns mobilising the power of major investors as shareholders to demand that companies improve their practices. FairPensions also encourages individual beneficiaries to write to their pension fund urging the firm to become a responsible investor.

In 2010, the "*Tar Sands: Counting the Costs*" campaign benefited from extensive media coverage and the unprecedented mobilisation in the United Kingdom of pension funds, NGOs, unions and politicians. With the support of major investors, FairPensions filed two resolutions asking Shell and BP to publish data on environmental, social and financial risks arising from their tar sands projects in Canada.

In April 2010, 15% of BP's shareholders voted for this resolution and 11% of the shareholders did the same at Shell's general meeting in May. These percentages may seem low but should be put into perspective. Firstly, although these two resolutions were not voted in, the voting rate was high for a shareholder resolution on environmental risks. Secondly, the widespread mobilisation in favour of filing these resolutions drove BP and Shell to organise a number of meetings with investors to explain their projects and improve their transparency on their involvement in tar sands. The additional information obtained by some investors during this dialogue led them to vote against the resolution at the general meeting or abstain from voting. On the FairPensions website, Karina Litvack of F&C explains that the firm, despite its interest in this resolution, abstained from voting "in recognition of BP's considerably improved transparency regarding its involvement in Canadian oil sands".

The transparency efforts of other investors remain inadequate, but the campaign highlighted the risks involved in extracting tar sands. Its success showed that mobilising stakeholders can in fact influence policy.

No equivalent NGO exists in France to coordinate shareholder resolutions, but this could change. Several NGOs including the CCFD – Terre Solidaire (France's top development NGO) and Amnesty International France are currently discussing the set-up of a coalition that could foster collaborative shareholder engagement initiatives, in line with their actions to influence political and economic decision-makers.

Divestment

Shareholder engagement is a long, drawn-out process. All investors deem that divestment is the last resort when all other tactics have failed.

When an investor does decide to sell shares, thus ending the engagement campaign, it can leverage the decision by publicly notifying other shareholders of its reasons for doing so. As part of its engagement approach with Publicis, Phitrust Active Investors submitted a question at a general meeting concerning the financial terms of the post-employment benefits of the communications group's chief executive, following its prior public alert. With no satisfactory response from Publicis management, the investment manager published a press release on 4 June 2010 explaining its approach and concluding as follows: Given these "governance-related issues... in accordance with our stringent management principle, we have decided to sell all our PUBLICIS shares."

The company is even more sensitive to public divestment when the investor holds a significant stake or is a major investor on the market. In 2006, the decision of the Norwegian Government Pension Fund – Global to exclude US retail giant Walmart, underlining serious and systematic human rights and labour rights violations, did not go unnoticed.

However, divestment as a result of failed engagement approaches is rare, especially in France, and is announced publicly even less frequently. The CCR Actions Engagement Durable fund's response to the AFG-FIR Transparency Code outlines the company's engagement policy and mentions that a company will be divested from the portfolio if dialogue "over a reasonable period of time" proves ineffective. Following the example of EdRAM, the engagement process remains prudent thus far as to the outcome of failed dialogue. The engagement programme of Swiss investment manager Pury Pictet Turrettini & Cie S.A., initiated four years ago, is still too recent to consider selling the shares of targeted companies.

Ethos: Collaborative engagement of Swiss investors

Created in 1997 by two Swiss pension funds to promote SRI, the Ethos Foundation grew rapidly and is currently comprised of about one hundred Swiss institutional investors representing more than EUR 90 billion. The Ethos Foundation operates through the company Ethos Services, set up in 2000. Ethos has been known for the success of its shareholder resolutions for several years. A few examples are provided below. Their two exemplary campaigns are "Stop Chairman-CEO", which focuses on separating the roles of chairman and chief executive officer, and "Say on Pay", aimed at submitting the remuneration report to advisory vote at general meetings. (This is not mandatory in Switzerland, unlike in the United Kingdom and more recently in the United States).

"Stop Chairman-CEO"

Its first feat of arms was against Peter Brabeck, who combined the roles of chairman and chief executive officer of Nestlé. In 2005, Ethos and five major Swiss public pension funds filed a resolution requesting a change in the by-laws to prevent the combination of these two positions. The resolution garnered strong support, with 36% voting in favour, 13% abstaining and 51% against it. Even if the resolution did not pass, Mr Brabeck immediately announced that he understood the message from his shareholders and would leave his position of chief executive officer within two years. Moreover, the board of directors of Nestlé agreed to begin revising the company's by-laws and surveyed all the shareholders on their stance on governance. At the 2006 general meeting, an internal resolution asked shareholders to grant Nestlé's board of directors authorisation to revise its by-laws. This resolution was approved by more than 98% of the shareholders. In 2008, new by-laws were voted in, a new chief executive officer was appointed, and Peter Brabeck retained his position as chairman of the board of directors.

"Say on Pay"

The "Say on Pay" campaign, aimed at the five largest companies listed in Switzerland, was launched in 2008. Four of these companies agreed to submit their remuneration report to an advisory vote. Only Novartis refused in 2009, although 31% supported the Ethos resolution. The pharmaceuticals company agreed to submit a similar vote in 2010. A total of twenty Swiss companies submitted their remuneration report to shareholder vote in 2010. According to Ethos, thirteen others plan to do so in 2011.

Role of UBS executives in the crisis

At the UBS general meeting in 2008, Ethos presented a shareholder resolution demanding a special review to shed light on the massive losses due to the subprime crisis. Forty-four percent voted in favour of the resolution. The dialogue between Ethos and UBS resulted in a compromise: UBS agreed to publish a detailed report on the bank’s financial situation and on the measures taken in the context of the US subprime crisis.

In 2010, Ethos recommended voting against discharging former bank executives of their responsibility in previous financial years for the major losses generated by speculative trading. The general meeting followed the recommendation, with more than 52% refusing this discharge for the 2007 financial year. However, the new executives at UBS have still not filed a suit against their predecessors.

Ethos Engagement Pool

Ethos Services engages in private dialogue with the 100 largest Swiss companies on behalf of about sixty Swiss institutional investors that comprise the "Ethos Engagement Pool". Every year, pool members choose the dialogue topics with companies and receive annual reporting on the measures taken and their results. The "discreet dialogue" approach taken by Ethos helps build trust with company executives. It aims to raise their awareness of ESG issues and create long-term value for shareholders.

ethos

Ethos Engagement Pool — EEP

Mandaté par un nombre croissant de caisses de pension, l'Ethos Engagement Pool mène un dialogue discret et efficace avec les sociétés cotées en Suisse pour améliorer leur gouvernance, ainsi que leur responsabilité environnementale et sociale.

L'Ethos Engagement Pool permet de participer de manière active, conjointement avec d'autres investisseurs institutionnels, au développement du tissu économique suisse. Le dialogue discret avec les instances dirigeantes des sociétés cotées est efficace. Il permet d'engager un processus d'amélioration dont profitent toutes les parties prenantes de l'entreprise. Cette forme de dialogue fait partie intégrante d'une stratégie d'investissement à long terme. Elle contribue à créer de la valeur actionnariale.

Engager le dialogue discret avec les instances dirigeantes des sociétés signifie :

- Sensibiliser les sociétés à la bonne gouvernance, ainsi qu'à la responsabilité sociale et environnementale, ceci en vue d'engager un processus d'amélioration
- Augmenter la valeur à long terme pour les actionnaires, ainsi que les autres parties prenantes

Ethos —
Un engagement qui joint les actes à la parole

In just a few years, the Ethos Foundation has evolved into a leading defender of corporate governance and a heavyweight in dealings with Swiss companies.

IV.
Major hurdles… that can be overcome

In theory, shareholder engagement should be a structured process that is used in combination with other responsible investment approaches. Companies that improve their practices and better manage certain risks can also benefit from this long-term investment strategy. Many actors involved in shareholder engagement point to major practical and political hurdles only overcome by strong convictions and a well-established process.

Companies object to shareholder engagement

With the rise in protest voting in general meetings, some issuers work to limit the power of their shareholders.

Public opposition in general meetings expressed through voting sends a negative signal that should be avoided wherever possible. As such, companies increasingly work upstream of general meetings to understand the expectations of the most active investors, answer their questions concerning resolutions as best they can or even amend draft resolutions to ensure that all resolutions on the agenda are voted in. This dialogue takes on several forms. Some companies, such as Shell, which publicly boasts about its approach, organise governance roadshows to meet their main international investors. Others call on the services of specialised consulting companies to understand investors' positions on certain resolutions. These practices have developed significantly in the United Kingdom since voting on remuneration reports became mandatory. They now seem to be spreading in France. They are generally considered constructive, although some investors are not in favour of direct dialogue with company management.

Of the greatest concern is the strong reaction if no agreement is found prior to the general meeting. The largest institutional investors have confirmed this. If no amendment to the resolution is accepted by the company, the investment firm's highest management bodies must back the voting position for it to hold. Without this support, investees do everything they can to assert their power of dissuasion.

Resolutions proposed by shareholders in compliance with regulatory criteria have recently been refused submission. The general meeting's sovereignty is undermined by some companies, particularly in France. Investees seek to block these resolutions particularly because they are binding in France.

In 2009, Phitrust Active Investors, through the French fund Proxy Active Investors, was three times refused the right to submit resolutions at the general meetings of Sanofi-Aventis, de Cap Gemini and Total, all drafted under the same terms. The resolutions requested shareholder approval of the remuneration of the non-executive chairman. Similarly, in April 2010, the board of directors of Société Générale refused to submit a draft resolution that requested the separation of the roles of chairman and chief executive officer. Yet, in both cases, Phitrust had rallied the support of other investors to meet the voting right requirement of at least 0.5% of share capital. These refusals have highlighted the legal void that exists even where the technical provisions entitle shareholders to file a resolution. Evidently, not all types of topics can be submitted to advisory vote by shareholders.

French and foreign investors alike deplore this unusual environment that is unique in France. Karina Litvack of F&C, whose team has led engagement initiatives with 600 companies worldwide, has mentioned that debate with French companies is often less flexible and can rapidly lead to tension. She goes on to say that, rather than engaging in constructive dialogue, discussions go sour over the topic of filing resolutions, rapidly turning the dialogue into a legal issue.

Employee shareholders are also included in this debate. In 2009, Total set up an employee investment fund, Total Actionnariat France, which represented about 3% of the share capital. It submitted three resolutions including one that requested a "new procedure for appointing the employee shareholder director". These resolutions were included on the agenda, sustaining support from an average of 18% of shareholders. Bruno Henri, the chairman of the Supervisory Board of the Total Actionnariat France fund, did not invite the company representatives to participate in the vote at this meeting, expressing the fund's vote on each of the resolutions submitted at the general meeting. Total clearly intended to punish this type of initiative by suing Bruno Henri and demanding payment of €44,000. Dismissed in court, the company has appealed the decision.

Shareholder engagement can produce results, but it takes time. This is confirmed by the initiatives undertaken by foreign organisations such as the Ethos Foundation in Switzerland. Jean Laville, Ethos Deputy Managing Director, argues that a shareholder engagement programme requires validity and continuity, along with the press where necessary, to establish legitimacy and credibility with companies on ESG issues and to ground its actions as more than mere "passing" efforts. He concludes that, today, company demand is emerging for the expertise developed by Ethos.

Support from financial executives remains too scarce

Actors were unanimous, with the notable exception of the Climate Advocacy Fund, in their belief that private dialogue is always the first step in their shareholder engagement campaign. When this proves inadequate, engagement approaches take one of two paths. The first comprises firms deemed independent that take a formal, governance-focused engagement approach. These firms are prepared to step into the public realm to take their convictions as far as possible to obtain a change from the company. The second includes firms with greater exposure to conflicts of interest that prefer to pursue private dialogue, even if this means never achieving their goals.

Thin Chinese walls

When managers practice discretion in their engagement approach, particularly in France, reality becomes rapidly distorted in the publicly disclosed voting reports. Although the investment manager always claims that it has no conflict of interest, those firms that are part of a leading bank are uncomfortable about launching an engagement campaign with a client company. The theoretical Chinese wall between investment management and other banking activities does not prevent contact between company management and financial institutions. To make matters worse, institutional investors do not face this type of conflict of interest on paper but tend to exercise the same prudence.

The explanation offered by investors is often the fear of violating the trust established with companies. Some investors go so far as to refrain from publicly announcing a divestment as a result of a failed engagement strategy, claiming that such communication could harm the dialogue in progress with other companies.

That said, companies such as F&C, Hermes EOS and Phitrust Active Investors continue to use public manoeuvrings or a confrontational tone in their shareholder engagement approaches.

With no explicit mandate, whose responsibility is it?

Institutional investors often justify the lack or weakness in engagement practices by the fact that they delegate their management, and the shareholder rights are transferred to the managers. Managers in turn argue that they cannot undertake an engagement campaign without an explicit mandate from their clients. This situation should be remedied as investors' obligation to clarify the terms under which they exercise their shareholder rights is being reviewed at the European level.

The exercise of voting rights and engagement require significant resources. Demand from institutional investors would encourage investment managers to raise the necessary funding on an ad hoc basis.

Furthermore, firms such as Hermes EOS and F&C in the United Kingdom, Phitrust in France or Ethos in Switzerland, specialised in shareholder engagement, have stopped dodging responsibility between institutional investor and manager. Instead, they have established a business model whereby adequate resources are allotted to engagement programmes. F&C's engagement services are offered separately from delegated management. This structure, in which the resources allocated to engagement are actually pooled among several institutional investors, has the added benefit of minimising risks of conflicts of interest while leveraging engagement potential through the size of the assets represented.

Lastly, some legal issues can sometimes encumber the communication of voting instructions from institutional investors to their managers. The ERAFP (the French Public Service Additional Pension Scheme, a French public pension fund that is fully SRI) explains it as follows in its 2009 SRI annual report: "The exercise of voting rights is delegated to the six asset management companies, which vote in accordance with their own principles. It should also be noted that because it invests through FCP investment funds, ERAFP has no legal ability to impose voting rights principles on asset managers that run counter to their own."

The solution may come from Switzerland. A recent, original initiative taken by UBS aims to limit the risk of conflict of interest while promoting the institutional investors' duty of active ownership. The Swiss bank has launched the free service, "UBS Voice", allowing qualified investors in its investment funds to express their voting preferences for the thirty largest capitalisations in Switzerland. The manager sends the investor notification of the general meeting agenda upstream, and the fund's management provides the voting recommendations from its client for the shares owned.

Costs versus benefits

Major resources are needed…

"The costs are easy to determine. The impact, much less." Rosl Veltmeijer of Triodos Investment Management sums up one of the hurdles most commonly mentioned by those who practice engagement. Collecting and analysing information in-house or through an extra-financial analysis agency, addressing sometimes a large number of companies, monitoring engagement, exercising voting rights at many different general meetings, and so on. All this requires heavy investment. Several cost-cutting strategies exist. First, most investors, like FRR, often have resources limited to one or two people. Beyond that, they call on outside service providers to perform a few engagement initiatives every year. In 2010, two UK pension funds, Railways Pension Trustee (Railpen) and Universities Superannuation Scheme (USS), decided to establish a common voting policy and pool their resources used in the exercise of voting rights and engagement. Other companies, such as F&C or Hermes EOS, have 20- to 30-people teams devoted to engagement practice, enabling them to analyse a large number of companies worldwide at the same time.

... while measuring results remains complex

Engagement actors unanimously agree on the difficulty in measuring the results of their approaches. First, the financial benefit is neither immediate nor personal. Investors who initiate engagement bear the costs but are not the only ones to benefit from it. In addition to the environment and society, other investors with shares in the companies involved reap the same long-term benefits without putting forth any resources. This problem can be reduced by implementing collaborative approaches.

Second, it is difficult to determine the scale of success of engagement in terms of impact on companies' ESG practices. Engagement is a long-term process, and several investors can initiate similar engagement campaigns with the same company. The Transparency Code of Allianz Global Investors offers a pragmatic solution: "Engagement activity is considered a success if dialogue has been established with the issuer and if the elements provided by the issuer enable the SRI team to take a decision whether or not to maintain the issuer in the socially responsible investment universe." Companies like F&C have monitored their activity over time by reporting to their client on the entire engagement process. When company practices fall in line with F&C's expectations, it is deemed to have achieved a "milestone", i.e. a sort of unit of improvement in the overall engagement "project". Progress can therefore be assessed on a quarterly basis. In its voting report, Amundi measures the "rate of impact" of its dialogue practices. This figure represents the relation between the dialogue initiated and the changes in its voting strategy as a result of this engagement.

The CalPERS fund is the only one that has statistically measured the change in the stock market performance of the companies that have been the object of its engagement focus. The latest results published in 2010 illustrate the "CalPERS effect": "For the five years prior to their placement on the Focus List, the companies produced average annual returns that fell 30.1 percent below their market industry benchmarks. But in the five years after listing, they beat those benchmarks by an average of 2.4%". This performance suggests a link between good governance practices and stock market value.

Acting at the right time increases chances for success

Companies are concerned with keeping their investors in times of financial difficulties, restructuring, redundancy plans, and so on. Investors can seize this opportunity to voice their priorities.

For example, Hermes EOS states that persistently poor performance or a spate of profit warnings offers a more favourable context to engagement than periods of prosperity. Shareholders gain an advantage, thus encouraging the company to refocus its strategy, including CSR issues. Similarly, CalPERS recently adjusted its engagement policy for under-performing companies, increasing direct contact and potentially filing resolutions.

Technical difficulties

Once investors have overcome the "political" and economic hurdles to implement with their engagement policy, the technical difficulties remain. The most commonly cited challenge is the investor's proportionate stake. It has to be significant enough for the company to pay any attention and to meet the statutory requirement to file resolutions. Two scenarios exist: a) the investor owns an adequate portion of capital, like the Norwegian Government Pension Fund - Global or EdRAM's Tricolore Rendement fund, which is significantly invested in large French corporations[2], or b) engagement campaigns are coordinated by smaller structures that are capable of mobilising major investors, promoting collaborative approaches and handling the public communication on these initiatives, such as FairPensions, Ethos or Phitrust.

Another difficulty is that shareholder rights, either to file resolutions or even merely to exercise voting rights, vary considerably between countries. Michel Barnier, the European Commissioner for Internal Market and Services, launched a consultation on the proposed amendment to the shareholder rights directive. It aims to harmonise European legislation and is expected to bring improvements in the future. In its reference document, the Commission fully recognises the complexity of the long chain of financial intermediaries with regard to the exercise of voting rights. Its underlying purpose is to facilitate cross-border voting from a legal standpoint.

Acting locally

While waiting for these regulatory changes, Phitrust is focusing its limited resources on CAC 40 companies. In Switzerland, Ethos primarily engages in dialogue and files resolutions with Swiss companies. Australian Ethical Investment, through the Climate Advocacy Fund, targets the largest Australian companies, encouraging them to take better account of climate change risks.

This strategy of concentrating on national companies is justified. 2007 figures suggest that French investors owned nearly 60% of the listed market in France. Engagement practices with companies of the same nationality are generally more effective due to the proportion of national investments, as well as factors such as the difficulties of cross-border voting, knowledge of the local market and legislation, geographical proximity and shared culture with the executives of target companies.

The approach can then be expanded abroad through specialised companies or collaborative networks devoted to voting practices. The European mutuals and cooperatives interest grouping, Euresa, through its initiative Euresactiv', aims to pool resources for ESG research, the exercise of voting rights and engagement. In each country, a "leader" sends its analyses and voting recommendations to the network if other members are shareholders of the same company.

In the Netherlands, the Eumedion network was set up in 2006 by institutional investors that owned more than EUR 1,000 billion to improve the governance of Dutch companies.

[2] The reporting of the Tricolore Rendement fund specified that it held more than 0.2% of capital in Total SA at the end of 2010.

This network provides information on general meetings and a forum to share the initiatives taken by its members with companies and the public authorities.

With yet broader reach, initiatives like the PRI Engagement Clearinghouse allow investors to participate in collaborative engagement campaigns abroad on topics or in legal environments on which they have limited knowledge.

As observed by those involved, this type of collaboration often takes time to implement, as the relationship between participants is based on the development of trust.

Conclusion

Despite its development over the past ten years, shareholder engagement lacks a clear definition or scope. This situation reflects what has been observed more generally regarding SRI. Moreover, knowledge of shareholder engagement practices and the interest in these approaches vary considerably from one country to another. Already popular in the United States, United Kingdom and some northern European countries, they meet with reluctance in France, but seem to be developing.

This paper serves as an assessment that aims to clarify concepts and encourage investors interested in engagement to structure their practices and combine them as much as possible with their other SRI approaches.

The SRI processes that have developed the most in the past few years, notably best-in-class screening in France, can have a somewhat elusive impact on companies' ESG practices. However, shareholder engagement, when applied methodically and consistently, can bring about significant change within companies. It therefore seems logical to combine an engagement programme with a responsible investment approach. As such, investors would legitimately be drawn to companies that are open to dialogue and proactive about ESG issues. Conversely, investees that refuse to apply better extra-financial risk management, thus resisting shareholder requests, would in theory be divested from portfolios.

Upon its launch in 2009, the Novethic SRI Label offered the "Engagement" Award to encourage structured engagement practices in combination with other approaches applied to SRI funds. Virtually no French open-ended funds currently on the market practise engagement to this extent. Indeed, no fund was given this award in 2009 and only one in 2010, confirming the relative lack of maturity of engagement approaches in France. Except for Phitrust, whose core business is engagement, most investors have inadequate experience or background at this stage to provide public proof of tangible results. To obtain the Novethic SRI Label's Engagement Award, candidates must uphold that they have implemented a successful approach and communicate with third parties. These criteria are crucial because demonstrating the impact of engagement campaigns also helps legitimise them in the eyes of decision-makers, notably institutional investors. This is critical, as they require sizeable resources and strong political support.

Current engagement practices can still be developed. Voting at general meetings is already practised by more and more investors, and dialogue on ESG issues between shareholders and companies is improving.

Appendix

Negative voting rate at 2009 general meetings

The table below presents the negative voting rates of the main SRI investment managers and institutional investors in France (where available). The stark differences in data are partly due to the highly diverse voting scopes.

Asset management firms	Against	Abstained	Observations
AGICAM	26.9%	3.4%	
Amundi	18.0%		
Aviva Investors	22.8%	2.5%	
CCR AM	4.8%		Scope: France
Covea Finance	16.9%	0.1%	
Dexia AM	11.6%	8.0%	
Ecofi Investissements	34.0%		
Edmond de Rothschild AM	31.9%	0.1%	Scope: France
F&C Investments	10.0%	4.0%	19% in the France scope
Fédéris Gestion	24.2%	0.9%	25.8% in the France scope
HSBC Global AM	17.6%	3.0%	
Interexpansion	24.3%		Scope: France
LFP-Sarasin AM	6.0%		
Macif Gestion	32.0%	6.0%	
Meeschaert AM	33.3%		
Natixis AM	11.1%	0.2%	13.4% in the France scope
Phitrust AI	42.3%	1.4%	
Robeco-SAM	7.8%	1.6%	
Allianz Global Investors France	24.6%*		26.2% in the France scope
BNP Paribas IP	22.0%*		
CM-CIC AM	20.2%*		25.4% in the France scope
Groupama AM	26.0%*		30% in the France scope
La Banque Postale AM	20.9%*		
Institutional investors	**Agains**	**Abstained**	**Observations**
ERAFP	20.0%		
FRR	13.0%	2.0%	

*Investment managers that aggregate negative votes and abstaining votes.

Shareholder engagement: a promising SRI approach

Study conducted by Dominique Blanc, Aela Cozic and Samer Hobeika,

Novethic SRI Research Centre.

Novethic, part of Caisse des Dépôts, is a research centre in France on Socially Responsible Investment (SRI) and a sustainable development media expert.

Set up in 2001, today Novethic is the exclusive source of statistical information on the French SRI market. The SRI research team conducts thematic studies, analyses product trends and assesses the SRI processes of asset management firms. Novethic initiated a label for the SRI funds available on the French market in 2009.

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