CANDRIAM

Engagement report 2022: Where do we go from here?

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Marketing communication

Interview

with Sophie Deleuze

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Sophie, 'Engagement' is the big buzzword in responsible investing. You've been there a long time. What is the big picture today?

At Candriam, we are both more active and more demanding in our engagement activities, an attitude shared by several other investors, mostly European. Investment teams are increasingly involved, in both the practical exchanges with issuers as well as the determination of engagement priorities and approach.

Last year, 2022, was an evolution rather than any sharp change in direction. Climate and Energy transition remain on everyone's dashboard, with biodiversity close behind – and essentially a part of the broad topic.

Can you offer us some colour?

We usually prioritize collaborative forms of engagement. At this point, investor-owners need leverage to push issuers into alignment with the Paris Agreement 1.5°C pathway with low or no overshoot. As part of our commitment to the Net Zero Asset Management Initiative, in 2022 Candriam began our own Net Zero Direct engagement campaign, targeting the 50 of our investee companies which make the greatest carbon contribution to our portfolio.

The central role of annual meetings was demonstrated through a surge in number of Say-on-Climate resolutions sponsored by managements, while the appearance of Climate Strategy on AGM agendas confirms the legitimacy of the topic. The overall support level for these management-sponsored resolutions remains incredibly high, causing some to question the ability of the majority of owners to effectively assess the transition plans on which they are expected to vote. In our opinion, many of these management-sponsored climate plans provide insufficient information, and are too broad to address the accelerating changes.

Candriam's annual Engagement report is filled with facts, figures, and case studies.
How do we connect the dots?

Labour and Human Rights-related engagements continued their Covid-born trends, further fuelled by the tense geopolitical context. Transparency over the impact of new technologies on human rights, prevention of forced labour, and the prerequisite implementation of even greater due diligence on human rights are keeping us busy.

Corporate Governance still accounts for a large part of our one-on-one engagements. Corporate managements are increasingly challenged on their capacity to oversee ESG risks, and to prevent conflicts of interest. Questions continue regarding some apparent disconnects between executive remuneration and company performance, as well as gaps between senior management remuneration and remuneration of all other employees. To see this in practice, you might like to read our ESG analyst's comments on governance in the banking industry, published in the wake of the March 2023 announcements from SVB and CSFB.

How are you handling the increase in Reporting Requirements?

Demands for more detailed communication and reporting are pouring in daily from regulators, clients, society… of course from our internal stakeholders themselves! These requests are legitimate, and transparent reporting is part of Candriam's Responsibility.

Providing more detailed reporting requires systems. At Candriam, our ESG team has a proprietary database for the coordination and monitoring of engagement activities. Our database is integrated with Candriam's systems for holdings, and also fed by the inputs of ESG analysts and our investment teams. We track engagement history for every issuer, including details of votes and related rationales; details of every engagement such as trigger, objectives, topics, milestones, related levels of achievement, expected timeline; and the impact of the engagement on our ESG opinion and investments.

Inputting these details requires a conscientious team. But it pays off in a better organisation, and better information to allocate our finite resources. This year it helped us to provide a more precise view of the linkage between engagement and frameworks, specifically the UN Sustainable Development Goals and SFDR Principal Adverse Impacts, which was a strong reporting demand from all of our stakeholders.

And a look ahead?

The first half of 2023, which is voting season for most companies, saw investors demanding improved transparency and commitments on climate, biodiversity, workforce diversity and fair remuneration…. while we are seeing a severe drop in management-sponsored Say-on-Climate proposals. Of course, the usual Governance voting issues continue in full force. In that context, Candriam is supporting initiatives to facilitate the exercise of shareholder rights at AGMs, notably simplification of co-filing procedures or calling for standardization of Say-on-Climate proposals. Informed vote implies shareholders can access sufficient, clear and detailed information on core ESG challenges and the way companies handle them.

Across the asset management industry, we see 'growing pains', too. The enthusiasm for collaboration has led to an explosion of collaborative initiatives. From the perspective of an investor, we must be careful to choose those initiatives which are likely to be well-organized and efficient – perhaps a large group recognized by an experienced and respected entity, or perhaps a small group where all the parties are well-known to each other. Initiatives which just fade away without monitoring their planned milestones also waste the time of the company representatives, who have expanding reporting requests. All of us in the investment industry need to carefully consider the group engagements for the good of all asset owners. We must balayer devant notre porte – clean up our own back yard.

Some engagements, notably on climate, stir up a great deal of tension between issuers and investors. We see growing tension in the interactions between companies and other stakeholders, too. Litigation is rising, often from not-for-profit organisations, over energy transition plans or plastic management.

Why don't you sell, instead of engage?

We are active owners and debtholders. We exercise our rights when we believe action is needed to enhance long-term value for our clients and ultimate beneficiaries, and to generate Sustainable benefits for society in general. **Occasionally, divestiture is indeed the answer**.

But let's be clear. We prefer to be partners and accompany issuers in their journey as they continue to improve ESG transparency and practice. **When we remain invested and engage for action, it is because we believe in their capacity to achieve Sustainable performance**.

Want to learn more about our Engagement programs? Read our 2022 Engagement report.

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