

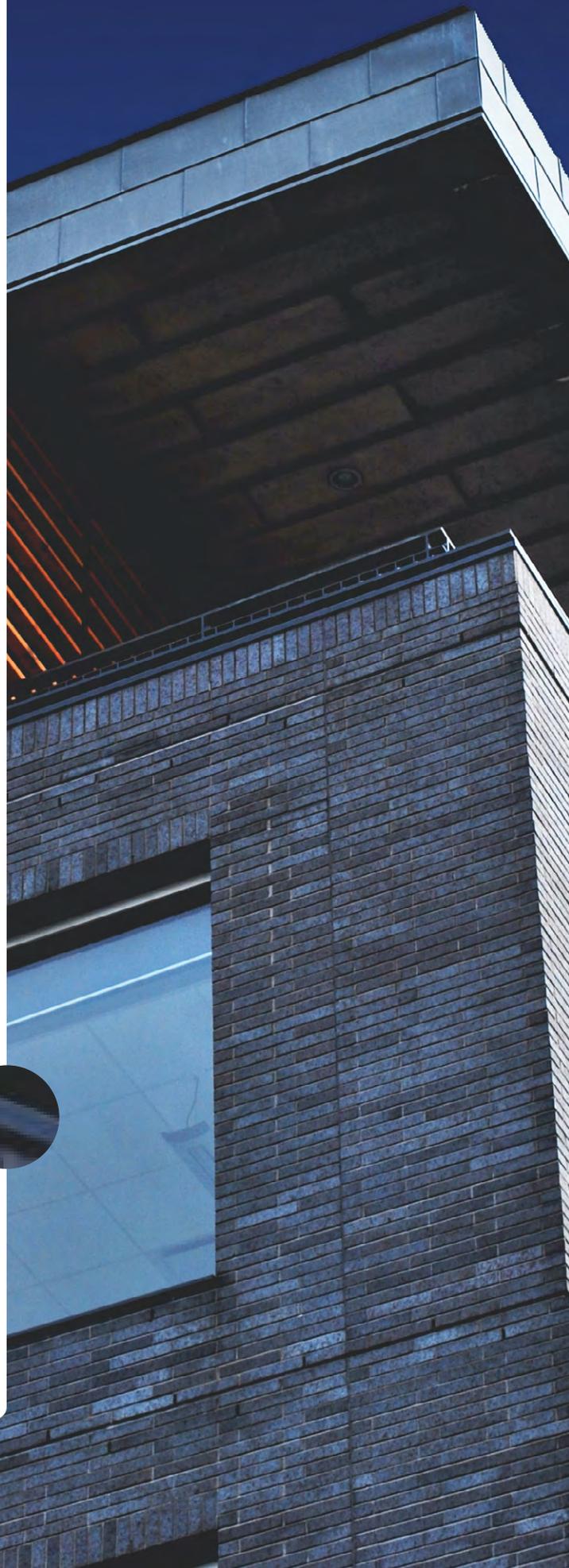
Kingspan

Active Engagement



MAY 2022

Marketing communication



The topic.

Kingspan Group is an Ireland-based company that provides insulation and building envelope solutions. It has five operating divisions, with the production of insulation products accounting for over 80% of company's business. Kingspan also offers a range of rainwater harvesting and flooding control systems, raised access flooring, daylighting, natural ventilation and smoke management solutions. As a leading producer of insulation solutions, the company operates in the sector which plays a significant role in the global energy efficiency push.

On the night of 14 June 2017, a fire spread rapidly across the Grenfell Tower, a high-rise council social housing residential building in West London. With 70 dead and over 70 injured, it was the worst residential fire in the UK since the Second World War.

Following the fire, a high-profile public inquiry was launched by Prime Minister Theresa May to examine the circumstances leading up to and surrounding the fire. Among a broad range of topics, it looked into the causes and respective responsibilities among a very long chain of intermediaries involved in the refurbishment and operations of the Grenfell Tower. This inquiry¹ is still ongoing but it has already led to structural reforms in UK's building regulation.

Kingspan's K15 insulation products were used to substitute others from a different manufacturer, and accounted for about 5% of the insulation boards used in the building's cladding system. Kingspan stated it was not aware of the use of K15 at Grenfell until after the fire, as the insulation boards have been supplied by a third-party distributor.

The public inquiry has so far concluded that the main cause of the speed at which the fire spread was a product from a different manufacturer used in external cladding, a highly combustible material which should have never been on a high-rise building.

However, companies providing rainscreen boards, Celotex (Saint Gobain) and Kingspan, have been criticised as part of the inquiry for outdated or misleading fire certificates on their products, these boards being considered as unfit for high-rise buildings when combined with PE-core Aluminium Composite panels.

Key criticisms included the way the manufacturers conducted the fire safety tests of their products previous Grenfell Tower accident, in conditions viewed by many as opaque. The lack of regulation and proper independence in the UK is also at the heart of the cladding crisis that threatens to bring the whole of the country's building sector to its knees.

¹ - www.grenfelltowerinquiry.org.uk/

However, in relation specifically to Kingspan, the Grenfell Tower tragedy also highlighted significant shortcomings in risk control, compliance and safety culture of their UK Insulation Boards business. More generally, it is the very functioning of the three-line-of-defence risk management system at group level that was put into question.

Kingspan has admitted *“a number of totally unacceptable process shortcomings in our UK Insulation Boards business...[and] a culture which is not reflective of the greater ethos of the Group”*.

After the public inquiry, Kingspan commissioned the law firm Eversheds Sutherland to conduct a rigorous review of the company’s UK insulation boards business and identify the causes of the issues named by the public inquiry. The lawyers were also asked to recommend a course of remedial action, in addition to the changes that had already taken place at Kingspan.

At Candriam, we believe that sound corporate governance practices typically results in a company culture based on a strong regard for risk management and compliance, ultimately delivering long-term shareholder value.

While we had been engaging with Kingspan on a number of governance issues for a long time before the tragedy, the additional issues highlighted by the Grenfell public inquiry and the shortcomings it has identified led to a more active engagement on our part.

The story thus far

Originally, Kingspan was a family enterprise, founded in 1971 by Eugene Murtagh, an Irish entrepreneur businessman. He led the company until 2005, when his son, Gene Murtagh, took over. The Murtagh family has done an excellent job in making Kingspan a world leader in a sector that plays a key role in helping to reduce carbon emissions. As a leading manufacturer of insulation materials that make buildings more energy efficient, Kingspan is part of a sector which plays a key role in the global energy transition. However, we consider the company is still on its journey of transition from a “family-owned business” to the standards expected of a listed company, not only in terms of transparency and the effectiveness of Board oversight, but also company culture generally.

Armed with the findings of the public inquiry, our engagement with Kingspan in 2021 and 2022 covered the following key governance issues:

- Lack of diversity at Board level impacted the ability to exercise a real counter-power to executive team.
- Till 2021, company’s top executive, CEO, serving in the Nominations committee, together with a committee’s non-executive chairman, also former CEO of the company until 2005. That, in our view, contributed to the lack of diversity mentioned above, as this committee is responsible for nominating independent directors.
- A key risk and compliance role of the Audit and Compliance Committee Chairman was performed by a Director who did not appear to have the time that the task demanded following the public inquiry.

Kingspan's management team has skilfully handled the recommended corrective and mitigating actions following the Grenfell tragedy. It has regularly reported on their progress in implementing Eversheds Sutherland's Recommendations². That said, Kingspan's governance structure, as presented at the **2021 AGM**, still fell short of our expectations:

1. Board of Directors: An unbalanced skill matrix...

Members of the Board with expertise in the sector(s) where the company operates is crucial for its effective management. A balance of power should stem from the wealth of industry and product knowledge shared by independent board members on the one hand and the executives on the other.

According to the biographies provided publicly and through our internal research, we consider a too limited number of Kingspan independent board members have had significant experience in the construction and building industries, nor had they worked in a sector with similar challenges around regulation, product governance/labelling or supply chain management. The lack of expertise in key areas of decision making at the Board level usually means that its members may not have enough knowledge to raise the right questions about the management proposals they are asked to approve, and thus cannot examine or challenge management decisions effectively.

This was not helped by the fact that independent directors did not compose the majority of the board which could indicate that the decision-making process was overly influenced by the affiliated parties. However, we note that after 2021 AGM, Kingspan's Board reached the 50% independency level we were hoping for; and an independent chairman was appointed to the Board. Securing these developments remains a priority for us as independence helps the Board to make decisions shareholders expect, based on objective, sound and professional judgements.

...and a lack of diversity

There is also a question of gender diversity, which remains at only about 27% at the time of writing. While it has not been among our priority concerns for this company, by reinforcing the presence of the underrepresented gender in its Board, Kingspan would demonstrate not just its commitment to equality but also improve its corporate governance profile by making its top decision making executive committee more inclusive. In a constrained labour market, the ability to attract a more diverse range of employees, including at the top management level, can be an undeniable asset.

2. The Chairman of the Audit & Compliance Committee: Spreading Too Thin?

As of the end of 2021, Michael Cawley, the chairman of Kingspan's Audit & Compliance Committee, served on the boards of four publicly listed companies, with one of them being a chairmanship role. As part of the remedial actions after the first phase of the public inquiry, the role of the old Audit Committee has been officially expanded (New terms of reference from December 2020) to also encompass compliance, namely the review of principal risks and uncertainties plus monitoring of compliance. Previously, the Board had already delegated responsibility to the former Audit Committee to monitor and review the Group's risk management and internal control processes, including compliance controls.

When dealing with shortcomings identified by the Grenfell Public Inquiry, this Audit & Compliance Committee is thus central as it monitors and reviews the company's risk management and internal control processes, the review and approval of the internal and external audit reports.

2 - https://ks-kentico-prod-cdn-endpoint.azureedge.net/kingspan-live/inform/media/inquiry/update-on-progress-against-eversheds-sutherland-recommendations-march-1-2022_1.pdf?ext=.pdf

This committee's key responsibility, crucially, is for *"the effectiveness of the controls and processes relating to product compliance and monitoring the culture of compliance across the Group"* which was severely questioned after the Grenfell Inquiry public hearings. Therefore, we consider the role of the Chairman of the Audit & Compliance Committee as key in steering the company in the right direction and so it requires the utmost attention and focus.

As part of our engagement, we expressed to the company our concern that serving on the boards of four publicly listed companies can make it difficult for Mr Cawley to dedicate to the demanding task at Kingspan the time and effort it truly deserves. Particularly considering that his Board responsibilities at other companies include Ryanair and Hostelworld, which represent two of the sectors most affected by the COVID-19 pandemic, and which require much of his time and expertise.

3. The Nominations Committee's lack of independence

While sometimes less high profile than the audit committee, the composition and functioning of the nomination committee is of vital importance for ensuring good governance and proper oversight of company management and decision making.

The composition of the Nominations Committee at Kingspan has been a matter of controversy for several years, both in terms of its independence and in connection with Kingspan's top executives on the committee. Even after the 2021 AGM, Gene Murtagh, the CEO, had continued to sit on the committee, which remained only 50% independent.

Although its composition complied with the UK Corporate Governance Code, Candriam considers that most members of the Board's key committees should be independent and exclude executive Board members. In our view, the lack of independence and the prominence of current and former executives on the Nominations Committee have slowed down the necessary governance improvements at Kingspan, including the independence and diversity at Board level.



Four months after we sent our first joint letter to Kingspan, and the exchanges with the company secretary that followed, the firm responded with an announcement of several important steps.

2021 Engagement

Until 2021, Candriam made its voice heard on the issues outlined above through both dialogue with the company and by exercising our but also via our votes³, including votes against directors or even the CEO. We also engaged, as we do with every company, on remuneration.

We held several meetings in 2021 with Kingspan's management team and their investor relations representatives, addressing both Grenfell inquiry and corporate governance topics. We expressed again the reasons for our dissent at that year's AGM, but also stated publicly we will escalate the engagement by contacting other shareholders to discuss our concerns.

Subsequently, between July and December 2021, we got in touch with Kingspan's largest shareholders to discuss our concerns. We finally decided to join forces with one of them and together engage with the company on the three corporate governance matters we outlined above.

2022 Engagement

We are satisfied that Candriam's engagement efforts, helped by those of many other shareholders, have yielded concrete results in line with our overall objectives. Four months after we sent our first joint letter to Kingspan, and the exchanges with the company secretary that followed, the firm responded with an announcement of several important steps. We believe that they demonstrate Kingspan's commitment to improve their corporate governance and meet shareholders' expectations in the following areas:

1. Board of Directors: skill matrix and diversity

While Kingspan has not yet fully addressed all of our concerns, the company did acknowledge them and stated that it will take them into consideration next year, when two independent Board members are due to be replaced following their retirement.

2. The Chairman of the Audit & Compliance Committee

Mr Cawley will continue to serve on the boards of Ryanair and Hostelworld (chairman) but has publicly committed to step down from Flutter Entertainment which clears our concerns. However, as he remains member of two boards of demanding sectors, we will continue monitoring closely this point.

3. The Nominations Committee's lack of independence

There are no more company executives serving on the nomination committee, and it is majority independent. Our concerns were fully taken into account.

3 - Our votes are public and available via our website under <https://www.candriam.com/en/professional/market-insights/sri-publications>

//

We believe that the case of Kingspan is a good example of how active engagement with companies on ESG issues can lead to big positive changes.

Next steps?

While we achieved most of our medium term engagement objectives related to Kingspan, helped by the influence of other investors, there is work to be done. We will continue our engagement individually on post-Grenfell compliance topics, including unsolved corporate governance issues such as improvement of the Board's skill matrix. Two independent directors are due to retire next year, and we consider this as a great opportunity to re-shuffle and improve the gender mix, the level of expertise and diversity of the Board of Directors.

As every year, we will also continue to discuss the Group's remuneration policy, as the company regularly referred to our comments in its updates. In addition, we will also monitor Kingspan's commitment to the "Planet Passionate" program, where we expect further improvements.

We believe that the case of Kingspan is a good example of how active engagement with companies on ESG issues can lead to big positive changes. We are proud of our contribution to the significant improvements to the corporate governance structure at Kingspan, after a painful period of controversy and scandal.



€158 B

AUM as of
31 December 2021



600

Experienced and
committed professionals



25 years

Leading the way in
sustainable investing

This document is provided for information purposes only, it does not constitute an offer to buy or sell financial instruments, nor does it represent an investment recommendation or confirm any kind of transaction, except where expressly agreed. Although Candriam selects carefully the data and sources within this document, errors or omissions cannot be excluded a priori. Candriam cannot be held liable for any direct or indirect losses as a result of the use of this document. The intellectual property rights of Candriam must be respected at all times, contents of this document may not be reproduced without prior written approval.

Candriam consistently recommends investors to consult via our website www.candriam.com the key information document, prospectus, and all other relevant information prior to investing in one of our funds, including the net asset value ("NAV") of the funds. This information is available either in English or in local languages for each country where the fund's marketing is approved.



CANDRIAM. INVESTING FOR TOMORROW.
WWW.CANDRIAM.COM

CANDRIAM 
A NEW YORK LIFE INVESTMENTS COMPANY