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Ethos: Back to the ESG future

by **Hugh Wheelan** | September 18th, 2015

Dominique Biedermann, Chairman, Ethos

When Dominique Biedermann stepped up in June to become Chairman of Ethos, the Swiss foundation for socially responsible investment and active share ownership, it was the end of an era. Biedermann started Geneva-based Ethos and held the CEO role for 18 years.

Vincent Kaufmann, his former Deputy took over as CEO in June.

The Foundation's history could read for that of active corporate governance itself in Switzerland.

Kaufmann is very much part of that legacy having joined Ethos in 2004 as a corporate governance analyst. Now a 200 strong pension fund collective for responsible investment, it has been nothing short of revolutionary. There are very outfits like it in the world. Its governance influence can clearly be seen locally in the 2014 Minder regulation that requires Swiss pension funds to vote on executive pay at AGMs and report to beneficiaries on how they voted. It also has echoes internationally in initiatives such as the UK Investor Forum.

It is fitting then to roll back the years with Biedermann and talk about Ethos' journey and the development of institutional voting and engagement in his home market. Ethos started in 1997 when Biedermann was the Director of the pension fund of the Canton of Geneva. Following a merger this became known as the CIA (Caisse de prévoyance du personnel enseignant de l'instruction publique et des fonctionnaires de l'administration du canton de Genève). The CIA then merged with another Geneva public fund for medical staff, the CEH (Caisse de prévoyance du personnel des établissements publics médicaux du canton de Genève).

Since the beginning of 2014, these merged entities operate as the Caisse de prévoyance de l'Etat de Genève (CPEG), managing SFr 11bn with a clear responsible investment policy for 67,000 members of which 22,000 are retirees.

Back then, Biedermann says his fund's board was split politically between left and right: "My task was to find common ground. We brought the two sides together around an understanding that fiduciary duty could sit alongside sustainability by running money on responsible investment lines. We realised though that if you want to manage your assets on an ESG basis it costs money. Therefore you need some kind of pooling structure." Biedermann knew another Swiss pension fund that wanted to do the same. Ethos was born of two pension scheme parents: the CIA fund and the fund for building workers in Geneva. It was structured as a foundation under Swiss law to promote socially responsible investment. It is a not-for-profit structure split between the Foundation and Ethos Services, its private, profit-making arm whose dividends are paid to its Foundation owner.

At its inception, Biedermann notes, only a small number of retail shareholders criticized companies at annual general meetings: "It was something of a sideshow," he notes. Ethos' approach of bringing institutional shareholders into the picture was novel. Exercising voting rights was its first goal. A few years later, it added a second: the promotion of a stable and prosperous economy: "The first was practical, the second was more of a guiding hand. It's not just enough to have the tools, you also need to have a direction, a mission of changing things," he says.

Ethos grew quickly to 20 members, then stagnated. One reason was fear of being publicly 'difficult' with Swiss companies: "Some pension funds involved did not want to have their names mentioned: it was another world to some extent," says Biedermann.

Another hurdle was financial proof. Biedermann adds: "We realised that we needed to demonstrate to other pension funds that money could be managed soundly on the lines we were promoting. So we launched a fund!"

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The fund quickly grew to SFr50m and investors in the pool also received Ethos' voting analysis, which they could use for their other portfolios. Some were more interested in the voting service than the fund itself, so a separate paid-for service for proxy advice was carved out.

At about the same time, two committed funds, the canton of Geneva and the city of Zürich said they wanted to engage with companies on ESG issues and were prepared to pay Ethos to work on their behalf. Biedermann recounts: "It was very interesting because there was a French and German balance, which is good in Switzerland. We started with an engagement universe of 50 of the largest Swiss companies, then 100. It was very Swiss-style discreet discussion with companies to begin with. Our approach was transversal: we wanted to ask the same questions to different companies, not just single out two or three."

This year, it passed the mark of 100 pension funds that are part of the Ethos Engagement Pool, now representing Sfr 17bn in Swiss equities assets: Says Biedermann: "Today, we have a serious level of institutional assets mobilized for engagement. We usually represent something like 1.3 or 1.4% of a Swiss market capitalisation, but with our voting recommendations, which reach SFr 40bn or so in assets, this grows to 3-5% for AGM votes."

In many of the biggest corporate governance battles in Switzerland today, the vote of Ethos carries weight. And being involved in governance battles carries less risk now, as Biedermann notes: "In 2005, we decided that because we demand lots of transparency from companies, we ourselves had to be transparent. We put all of our member names on the internet. No one left."

Getting down to the actual business of what Ethos asks for, Biedermann notes that there is a big difference between governance issues, which are decided at board level, and environmental and social issues which are usually handed to internal specialists. Ethos, he says, has been campaigning to get all three managed at board level as part of overall company strategy.

On governance, it focused at the beginning on board composition, independence and diversity.

In 2004, it began work on executive pay and transparency, then the structure of remuneration, and now the quantum. On the environmental side, its focus has been on corporate CO2 disclosure to organisations like CDP. On the social side, it started by just getting Swiss companies to report on working conditions and employee numbers, as Biedermann laughs: "In 2004, many Swiss companies did not even disclose the number of people that worked for them in Switzerland!" It has since majored on assessing companies 'codes of conduct' for business ethics and supply chain issues.

To be a member of Ethos in 2015, pension funds have to buy at least by one of its four main products: asset management, proxy voting, engagement or sustainability analysis.

It now manages SFr 1.8bn in its funds business via a range of Swiss and international equity and bond portfolios run in partnership with third party fund managers. It also has a global partnership to enable international share voting via its membership of the Expert Corporate Governance Service. The Foundation is also an investment manager member of the United Nations-supported Principles for Responsible Investment (PRI).

"When we started the engagements we were somewhat marginalised, but later when we kept on contacting the President of the Board in the name of our pension fund members, companies started to realise we were serious. Progressively, we became known around the market. It is amazing to think back now, because these days we are considered by many companies to be loyal, long-term shareholders and they regularly consult us on ESG issues! Our history gives us very interesting credibility today."

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