

# Credible engagement to foster the sustainable transformation

## Preamble

Engagement has the potential to bring about social-ecological transformation. The transformation of the economy as a part of this will be critical to a sustainable future and the stability of the economic and financial system.

Engagement has become an established part of Sustainable Finance. While governance issues have been the focus of engagement activities for some time, social and environmental issues have gained equal importance because of the social-ecological transformation of the economy.

With the demand that financial market participants help shape the social-ecological transformation of the economy, there are rising expectations towards the credibility of investor engagement. The financial community and the public are looking with increasing vigilance and a critical mindset at those who practice engagement. Therefore the question arises what are the characteristics of credible engagement.

Among financial market participants sophisticated engagement approaches already exist; specialized service providers and collaborative investor associations enrich the landscape of the market. Engagement has become an essential element of sustainable investing alongside other investment strategies such as exclusions and positive/negative screening.

We see the need to work towards a common industry standard for credible engagement. The following key points can form the basis. Bank für Kirche und Caritas (BKC), Shareholders for Change (SfC) and Union Investment, want to enter into a conversation with market players about this.

The entire sustainable finance industry faces the challenge to ensure the quality of sustainable investments. A common understanding of engagement also prevents reputational risks and underpins the credibility of investors that practice engagement. At the same time, the systematic integration of credible engagement into the investment process helps to ensure that fiduciary duties in the sense of stewardship are complied with responsibility<sup>1</sup>.

We understand engagement as the active influence by investors on investment objects through the exercise of voting rights and dialogue-strategies, always linked to the clear objective to encourage companies, states or other investment objects to act more sustainably.

The following key points should provide orientation for financial market participants. They show how credible engagement can look like.

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<sup>1</sup> Engagement is part of good stewardship. Guidance for the understanding and implementation of stewardship is provided, for example, by the German DVFA Stewardship Leitlinien, the UK Stewardship Code or the EFAMA Stewardship Code.

# Key points on credible engagement to foster the sustainable transformation

## A basis for discussion

### 1. Tangible changes in terms of sustainability as the objective of engagement

Engagement aims to bring about changes in the sustainability of investment objects through dialogue and voice strategies. Thereby financial market participants pursue the goal to initiate changes towards sustainable development in the real world.

### 2. Engagement towards the real economy, governments and other investment objects

Engagement is possible towards various investment objects. In addition to companies of the real economy, investments can also be made towards governments or other financial market participants. In addition to the shareholder rights linked with shares in companies, engagement activities can also be carried out in the case of financing (bonds and loans). But engagement is also possible without an investment („pre-investment“).

### 3. Setting the framework through engagement guidelines

Engagement activities take place within the framework of publicly available guidelines, by which the necessary transparency for all stakeholders is ensured. The guidelines describe how engagement activities are planned, carried out and documented.

### 4. Commitment through a defined engagement process

Engagement activities should follow a defined engagement process that specifies at least the objective of each engagement activity, the prospective timeframe for the achievement of targets and interim targets, and the maximum escalation level if targets are not met.

### 5. Set a time-limit for engagement activities

Engagement activities are limited in time. The duration must be realistically measured against the possibility for the investment object to achieve the target. At the same time, it must be aligned with the urgency of achieving the goal. Milestones must be defined so that the degree of transformation can be measured continuously.

### 6. Escalation in the case of failure

Engagement activities must trigger an escalation in the case of non-success. In order to enter into the critical-constructive dialogue with the investment object with the necessary pressure, it is essential to determine a clearly structured process framework of escalation stages for the case that the desired milestones and results are not achieved in the defined timeframe.

## **7. Transparency on engagement activities**

Engagement should be as transparent as possible. The financial market participant's engagement reporting shall, at a minimum, briefly reflect the state of play of each individual engagement activity (context and objective as well as measures taken), including the degree of target achievements. On the one hand, this underlines the credibility of the participant's own commitment and, on the other, provides an additional incentive for the investment objects to improve sustainability.

## **8. Measurability of engagement**

Engagement activities should be made as measurable as possible in terms of their sustainability impact. Although measuring the impact of engagement activities is a challenge, everyone who practice engagement should help to establish evaluation and measurement procedures for the sustainability impact of engagement.

# The initiators

## Bank für Kirche und Caritas (BKC)

Bank für Kirche und Caritas eG is one of the pioneers in the market for ethically sustainable investments. As early as 2003, the bank's own investments and all bank products were linked to an ethically sustainable investment strategy. The environmental, social and governance criteria used are based on the guiding principles of protecting human life, peace, justice and the integrity of creation. Engagement is a central component of its sustainability strategy. In this regard, the Catholic church bank seeks to initiate a dialogue with companies, states and other investment objects in its investment universe in order to motivate them to make improvements in their respective sustainability efforts or to remedy existing controversial incidents. The bank primarily serves ecclesiastical and charitable institutions of the Catholic Church and their full-time employees, as well as charitable foundations. Its total assets amount to a good 5.3 billion euro. <https://www.bkc-paderborn.de/nachhaltigkeit/nachhaltigkeitsfilter/engagement.html>

## Shareholders for Change (SfC)

The European network of institutional investors Shareholders for Change (SfC), founded in 2017, jointly engages with the aim of motivating companies, states and other investment objects to take greater account of sustainability aspects. SFC engagement activities focus on labor and human rights, aggressive tax avoidance and tax fairness, as well as CO<sub>2</sub> emissions and climate change. In carrying out engagement activities, the SfCs make use of a wide range of available options: from confidential dialog to the use of shareholder rights and the associated speaking rights at annual general meetings to public investor campaigns. SfC currently has 17 members from seven European countries and collectively represents approximately 35 billion euro in assets under management. The Bank für Kirche und Caritas is a German founding member of SfC.

<https://www.shareholdersforchange.eu/>

## Union Investment

As one of Germany's most experienced asset managers, Union Investment has been a professional partner to institutional investors for decades. With clear and consistent investment strategies, we consistently and successfully pursue our clients' investment objectives. Efficient risk management is a key component of all central component of all investment processes. As a fiduciary and investor, we see it as our responsibility to actively accompany companies on the path to sustainable transformation. In our view, this is where the greatest sustainability potential lies, which can be fully exploited through active management.

[www.union-investment.com](http://www.union-investment.com)

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