



BMO  Global Asset Management

Part of

 COLUMBIA  
THREADNEEDLE  
INVESTMENTS

 ethos

  
sycomore  
asset management

 global  
union

# One year progress report from the Investor Initiative for Responsible Care

## Executive Summary:

- Since we launched the Investor Initiative for Responsible Care last year in setting out our statement of expectations for the nursing home sector, this has gained traction as the importance and urgency of addressing the long-standing issues in the long-term care sector heightened further.
- We have seen the importance and effectiveness of the multi-stakeholder model of the initiative in working together with other investors alongside other key stakeholders of supranational organizations including trade unions, supranational organizations (OECD), academics, or organizations representing the rights of the elderly or families.
- We are delighted to now have 133 fellow investor signatories with more than \$3.8 trillion in assets under management to the Investor Initiative for Responsible Care.
- To advance the initiative in practice, we are pleased to have established collaborative engagement groups with seven nursing home operators last year and began this year collaborative engagements with REITs with a significant presence in the sector.
- To support and inform this dialogue, we have developed key indicators and engagement questions.
- The collaborative investor activities have been particularly active in France, and signatories have also led individually many AGM activities including shareholder resolutions in Canada.
- Looking ahead, our priorities are to build on our engagements to start to see and assess progress towards our objectives, including as an essential first step securing further transparency through disclosure from the companies on comparable indicators. We also welcome moves from regulators and policy makers to lift the bar for the sector, and plan to raise our voices to support the necessary changes across the sector.

## Letter to signatories of the Investor Statement of Expectations for the Nursing Home Sector

June 2022

Dear all,

As the four founding signatories of the Investor Statement of Expectations for the Nursing Home Sector (BMO Global Asset Management, part of Columbia Threadneedle Investments; Ethos Foundation; PIRC and Sycomore Asset Management) and UNI Global Union, the initiative's coordinator, we are pleased to provide an update one-year on from launching the Investor Initiative for Responsible Care.

Over the past year, our expectations gained traction as the importance and urgency of addressing the long-standing issues in the long-term care sector and the scrutiny on practices and investments in the sector have heightened further.

It is important to take stock of the origins and purpose of the initiative to meet this new moment for the future of the sector. The initiative was borne to raise the bar for higher standards across the entire nursing home sector in the wake of the spotlight that the COVID-19 pandemic cast on many vulnerabilities in our systems of elderly care around the world.

In particular, we saw how driving up working conditions in the sector unlocks improvements in delivering quality of care for residents and ultimately long-term financial sustainability. Consequently, our expectations focused on staffing levels, health and safety, wages and contracts, freedom of association and collective bargaining, and quality of care. As investors, we acted recognizing the risks posed from a human rights' perspective to residents and workers in nursing homes, and from the belief that addressing these risks can mitigate material legal, reputational and operational risks in investee companies.

Among this initiatives' most critical and distinguishing features is the multi-stakeholder nature of the collaboration that is essential to addressing these complex challenges effectively and efficiently. This includes actively encouraging other investors to join the initiative or reinforce our asks.

Alongside, it is an essential part of this initiative's model to work together with a broad group of key stakeholders such as trade unions, supranational organizations (OECD), academics, or organizations representing the rights of the elderly or families, with expertise and insights into company practices.

Just one year after we launched this effort, we recognize that seeing transformative results will take time and require long-term stewardship. We also note growing reputational risks for institutional investors from inaction. With the crisis in the sector in France in the beginning of the year, the importance of this effort we are undertaking together through this multi-stakeholder approach has been starkly reinforced.

## **Progress-to-date: Meaningful engagements with leading long-term care providers**

With that, we are pleased to share the strong foundations laid over our first year of the initiative. We are delighted to now have 133 fellow investor signatories with more than \$3.8 trillion in assets under management to the Investor Initiative for Responsible Care. This includes investors from around the world, with signatories from across Europe, North America and Australia. 75% of signatories are pension funds, reflecting a particular recognition of the importance amongst asset owners.

To implement this statement, as a first priority, we have formed collaborative engagement groups for those companies operating nursing homes where signatories had a common interest in their exposure to the companies. The nursing home operators which currently have collaborative engagement groups are: Chartwell, Fresenius, Humana, Korian, LNA Santé, Orpea, and Sienna Senior Living.

To ensure effective engagement, we have worked together to develop a set of key performance indicators and engagement questions, together with the input of organizations representing the elderly and trade union organizations. These were prioritized to gauge how operators are currently meeting these expectations and the priority areas for progress. These indicators will allow investors to measure change in the sector, and assess risks of investments in both individual companies and across the high-level of risks on a sectoral level. We have also reviewed and assessed company disclosures across the sector on the expectation areas to identify best practices and gaps in disclosures. It is clear that much more transparency is needed than currently reported across every geography. Disclosure of comparable, robust and meaningful data will enable a more substantive dialogue that can both recognize challenges and drive progress, as well as represent an essential step in rebuilding trust in the sector as a whole.

### **Focusing on property investments, alongside operators**

This year, we have also launched collaborative engagement groups with the Real Estate Investment Trusts (REITs) that have a significant presence in the nursing home sector. These include Welltower, Ventas, Vonovia, and we plan to expand to also engage with Cofinimmo and Icade. This stream of the initiative is in line with the point raised in our statement of expectations on the role of property owners in enabling nursing home operators to meet the expectations of working conditions and quality of care.

Our engagements with these companies also stems from a recognition that these REITs can bear both risk and responsibility for the conditions that take place on their properties. They are a critical actor in the sector, often with close and long-term relationships with nursing home operators, and fundamentally impact the financial arrangements that enable operators to invest in necessary improvements in staff and quality of care for long-term success. We believe engagement with REITs on how their oversight and rental arrangements impact on the ability of operators to meet our expectations could benefit these companies themselves in mitigating key risks, the operators in enabling essential improvements. Moreover, with establishing best practices, they could support to address the key social concerns in the sector.

## Resolutions filed

Alongside these collaborative engagements, many signatories have undertaken additional individual engagement and stewardship activities in line with the expectations laid out in the statement. In Canada, SHARE filed a shareholder resolution at the long-term care chain Chartwell which asked the board of directors to report on the Company's overall approach and board-level oversight of human capital management and the disclosure of key workforce metrics. This proposal received a high level of shareholder support, with more than 31% of shareholders voting in favour. How the company responds this year to this strong signal of shareholder support for workforce disclosure and board oversight will be closely observed.

Alongside, SHARE called for investors to withhold their vote for the chair of the Board, Michael D. Harris, based on the needs for accountability given the performance during the pandemic, and his long tenure on the board. He has since announced he will step down from the board at the end of 2022. Vancity Investment Management, another signatory, also filed a shareholder resolution calling for a study of the possibilities of implementing a living wage for its employees. Both proposals were also welcomed by a coalition of unions representing a majority of Chartwell workers. Over in Europe, a number of signatories also raised questions at the Fresenius AGM about how the company is implementing the statement of expectations in this part of its operations, and subsequently advanced their dialogue with the company on this.

The initiative has also sought to build awareness and elevate investor understanding of the importance of action on the nursing home sector. From launching the initiative with coverage in Reuters, in October 2021, UNI Global Union and the French Forum for Responsible Investment (FIR) held an investor briefing attended by approximately 50 investors to discuss solutions and make FIR members aware of the initiative. Speakers at the 1 October event—including workers and academics, as well as signatories asset owner Harmonie Mutuelle and asset manager Sycomore Asset Management—agreed that stakeholders must act together to make the industry more sustainable by improving working conditions and care quality. Individual signatories also set out in their communications the need for attention to the sector from investors, and the role of investors in driving change, such as this communication from BMO Global Asset Management, part of Colombia Threadneedle Investments.

## Spotlighting engagements with the French long-term care operators

The publication of Victor Castanet's book *Les Fossoyeurs* caused an unprecedented shockwave in France in the sector and far beyond. Through the serious shortcomings that the journalistic investigation highlighted, partly corroborated by the joint investigation of the IGF and the IGAS\*, within the Orpea group, it has made it possible to revive the necessary debate on the structural challenges that weigh on the social standards of the sector, such as qualified staff shortages, the financing of dependency care, the means of control of the supervisory authorities and the absence of official quality frameworks.

\* IGF: *Inspection Générale des Finances – French inspectorate general for finance* - and IGAS: *Inspection Générale des Affaires Sociales - French inspectorate general for social affairs*

Through our continued dialogue with Korian and Orpea, coordinated by Sycomore Asset Management, we aim to contribute to the transformation of the sector towards governance models that are more open to stakeholders and focused on social performance, and to strengthen transparency towards the public.

Our investor group met twice with Orpea in 2021: once to ask for clarifications on the group's strategy on the various aspects of our initiative (staffing levels, health & safety, wages & contracts, labour rights, quality of care) in the presence of the group's Quality and CSR Directors, and then for an exchange dedicated to social dialogue within the group with the Head of Social Affairs and the Director of Human Resources France. Several conflicts between the group and employees, particularly in relation to trade union rights in Eastern Europe and Germany, had alerted us to this issue. These meetings enabled us to pass on requests relating to both governance (quantification of the resources dedicated to social objectives, strengthening of the board's extra-financial skills, collaboration with the international trade union federations in view of the group's growing exposure outside France and outside Europe, etc.) and transparency (level of staffing in relation to regulations, granularity of the various geographical areas in the social reporting, publication of the number of disputes between the group and its employees, etc.). The questions raised during these first meetings and the inadequacy of some of the answers obtained confirmed the need for this dialogue.

Following the publication of a joint investigation report by the IGF and the IGAS, which provides numerous concrete elements on the dysfunctions that investors can take up, we wish to continue the dialogue with Orpea, whose transformation, due to its position as a leader in the private sector, is key to rebuild trust towards the entire sector. Our objective is to contribute to a profound reform of the group's governance and culture, which seems to us to be a prerequisite for improving its social standards.

The Korian group, also very much affected by the affair although not directly involved, announced in February its intention to propose to its shareholders to adopt the status of mission company at its AGM in June 2023, and then launched in March its first employee shareholding plan, open to all employees. Those decisions are in line with the "In caring hands" corporate project presented in 2019 by the group, including 15 quantified CSR commitments, including the creation of a stakeholder council in each country by 2023 (to date 4 of them exist including the French one set up in 2019). Those councils, close to local stakeholders, could play a key role in the creation of the future mission committee at group level.

The dialogue between the group of investors and Korian, initiated in 2021 on the basis of the list of 20 social indicators that we would like to see published by all players in the sector, continued at the beginning of 2022 with meetings with Sophie Boissard (Chief Executive Officer), Jean-Pierre Duprieu (Chairman of the Board of Directors) and Anne Ramon (Malakoff Humanis representative director on Board of Directors and Chair of its Ethics, Quality & CSR Committee).

Our interlocutors have been open to dialogue and attentive to our proposals on the composition of the future mission committee and its interaction with the other governance bodies, the strengthening of the Board of Directors' social skills and the publication of indicators that we consider to be priorities for restoring trust. Our objective for this dialogue in 2022 is to actively contribute to the implementation of an ambitious governance around the mission. In this regard, we welcome the proposition by the Board of Directors to appoint Philippe Lévêque, former Managing Director of CARE France, as an independent director at the upcoming AGM—a first step to strengthen the social expertise of the Board of Directors and its experience in multi-stakeholder projects.

### **Priorities ahead: Building on strong foundations for higher standards**

Looking ahead, it is clear that we have much to do to build upon the strong foundations we have laid together in the past year and that this will require continued stewardship. Our priorities for the year ahead are two-fold. We must see meaningful progress from companies from our engagements and grow the initiative's role in setting the standards higher across the sector.

For our company engagements, as we have met with companies to understand where they are and key challenges in meeting the statement of expectations, we now must start to see and assess progress towards our objectives, including as an essential first step securing further transparency through disclosure from the companies on comparable indicators.

We have established our comprehensive set of key indicators for key companies globally, and identified through our engagements and understanding of the companies, individual company priorities. Across the sector globally, an essential area where we must see further comparable disclosure is the staffing levels in relation to residents. While this indicator comes with complexity in measurements and lack of standardization, we see such reporting is both essential and achievable. We are in the midst of an intensive period of change for the sector over the 2022 Proxy Season, new regulatory expectations including disclosure of staffing levels are expected in France over the summer, and so we hope the coming months will also be a time where we see milestones of progress.

More widely, we are acutely aware of the need for raising the bar across the sector so that common issues are addressed, and those companies that are looking to set best practices do not face backlash from doing so alone. We welcome the moves from regulators and policy makers from across Europe and North America to lift the bar for the sector, and plan to raise our voices to support the necessary changes across the sector.

Thank you for your continued support of the Investor Initiative for Responsible Care. We are certain that this collaboration is essential to overcome the challenges ahead of us and drive the changes we need to see to ensure a socially and financially sustainable model of elderly care. We welcome more joining us in these efforts from other investors and further cooperation with the essential stakeholders of our systems of long-term care.

Yours sincerely,

