

Investment Insight

MAKING SHAREHOLDER ENGAGEMENT COUNT

What is the difference between William Tell and outgoing Sika chair Peter Hält? William Tell represents the myth and reality of Swiss independence. Not too far from here, the famous apple shot took place, which encouraged the Swiss Confederation to revolt against the Habsburg takeover. It took a while, but this small Swiss association managed, against all odds, to create the basis for a free, peaceful and prosperous country. Peter Hält also led a successful rebellion against a takeover, this time against the French and their allies. It was perhaps the longest takeover battle in Swiss history.

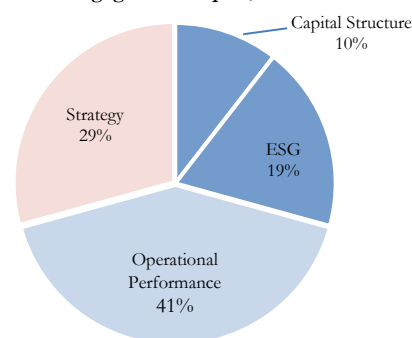
*Speech by Christopher Rossbach, World Stars Global Equity portfolio manager.
at Sika's 2024 annual meeting in Baar, Switzerland*

We invest in companies that have high quality and that can compound over long periods. Engagement with these companies is of great importance to us and our stewardship activities are an integral part of how we manage assets for our investors.

As active managers, we act as stewards of our clients' capital. We have a fiduciary duty to preserve and enhance the value of assets entrusted to us by our clients. Maintaining a constant dialogue with company management is a key part of maximising shareholder value over the long term. We engage actively with the companies we have invested in and use our voice to encourage change if we believe our companies should take more aggressive action to address important issues. We do our own analysis and make our own decisions instead of relying on the inputs of proxy advisors when we vote. This allows our voting to be active, engaged and consistent across our investments.

Many issues have the potential to impact the value of investments, including corporate strategy, capital allocation and structure, remuneration, M&A activity, governance and material environmental or social issues (ESG). In engaging with our investee companies, we look to support decisions that enhance the value of our clients' investments, and at the same time, to ensure that they are alive to risk factors that may detract from that value.

Engagement Topics, 2023



Engagement is a continual process. Last year, for example, we engaged with our investee companies and collaborative engagement bodies on 102 occasions to discuss topics about their capital structure, strategy, operational performance and ESG matters. In 42% of the engagement outreaches, we had the opportunity to discuss these matters directly with C-suite executives and/or senior management. This year, we decided to support the Disney board as it fought a proxy fight against activist investor Nelson Peltz, who was seeking a board seat at the media giant. We

felt strongly that the new chair Mark Parker and the CEO Bob Iger had taken important steps to put the company's strategy back on track, and that Disney was best served by focusing on performance and Iger's succession

Part of our commitment to engagement and responsibility as investors is to communicate publicly as we did in the case of Disney in the *Financial Times*. Most of the time we prefer to act behind the scenes, working with the companies we invest in through meetings with management and constructive dialogue to increase our conviction and to help to improve the outcome. It is always better to jaw-jaw than to war-war, as Winston Churchill said. But sometimes it is not an option and we have to take a public stand to fight for our investors' rights, as we did in 2014 when *Sika*, the Swiss materials technology company became embroiled in a bitter takeover battle that was one of the longest in Swiss history.

Fight for your rights: Sika, a case study

In March, Christopher Rossbach, portfolio manager of our World Stars Global Equity strategy, stood on the podium and spoke at Sika's annual meeting to express our support for the election of the new chair Thierry Vanlancker and our thanks for the outgoing chair, Peter Hält, who led the board and management we supported against the hostile takeover by Saint-Gobain, the French multi-national. The change in personnel marked the end of a corporate event that offers a lesson to investors about the importance of having a vote and knowing about rights.



When we first became investors in Sika its largest shareholder was the founding Winkler-Schenker-Burkard family. However, while the stake was worth just 16 per cent in terms of share capital, the family had 52 per cent of the votes because they owned a special class of shares that was not traded on the stock exchange. Unchecked power poses risks but we always believed the family when they said they

would treat shareholders fairly, as they had for almost a century. We also did our work at the outset to understand the rights of minority shareholders, who between them have a majority of the ownership but not of the votes.

Events took a significant turn in 2013, when the head of the family, Franziska Burkard-Schenker died. Within a year her heirs decided to sell. Saint-Gobain, a French maker of construction materials, agreed to pay an 80 per cent premium to buy the family's controlling stake, which was not listed. Other shareholders did not even get an offer. Our shares lost close to one-fifth of their value that day.

To us, this violated an elementary principle of fairness that was a critical consideration for our investment in Sika: while control may be concentrated in the hands of a few shareholders, the value of the company must be shared with all. We joined with Cascade, which manages the assets of the Bill & Melinda Gates Foundation Trust, and was the largest shareholder after the family, in taking a public stand to defend our rights and support the board in its efforts to thwart the hostile takeover of the company.

The entire company, board, senior leadership, management and the employees of Sika stood together to fight for its independence. Supportive shareholders like us were impressed by their commitment and enthusiasm. They were always present and at a general meeting after the takeover offer, the entire Sika management from all countries stood on the stage to say: Sika is not for sale!

Crucially, their words were followed by actions. Peter Hälg, together with the board and the management fought the legal battle against the takeover. They recognised the obvious abuse of the expanded voting rights and applied the company's statutes to restrict the voting rights of the acquirers. This meant that the voting rights of the heirs were treated the same as everyone else's and that the takeover could be prevented. Thanks to the active support of its shareholders and the strong business performance achieved by its employees, Sika secured its independence. Having failed to gain control Saint-Gobain reached an agreement in May 2018 to sell its stake in Sika, formally ending the takeover attempt. Sika bought back 7% of the shares itself and Saint-Gobain placed the remainder in 2020.

As long-term investors, we believe that investing in high-quality companies like Sika creates long-term and sustainable value. Share prices can fluctuate in the short term, but in the long term, they depend on the operating results, sales, earnings and cash flow of a company. Today, Sika is a world leader in sealing, bonding, dampening, reinforcing and protecting support structures in every application and a beneficiary of the need to renew the global public and private asset base.



We recently attended Sika's analyst and investor meetings in Tokyo and were impressed by its strong market positions, differentiated businesses and innovative products in Japan, China, India and other Asian countries. Tokyo is a city of 45 million, built in a flood plain, in an earthquake zone, on reclaimed land and next to the sea. Many

of the new skyscrapers in Tokyo are built with Sika's products and their many applications are crucial to futureproofing the biggest urban area in the world.

Warren Buffett has famously said, "price is what you pay, value is what you get." The value of a Sika share doubled in the time since Saint-Gobain's offer, which made the amicable solution possible. Since then, it has doubled again. The real competitive advantage of Sika is the quality and continuity of the management and its employees and we are confident that they will continue to contribute to its success.

The story of Sika is exemplary of shareholder engagement and corporate governance at its best and proof that boards, management, employees and long-term shareholders can work together to create sustainability, growth, jobs and value.



May 2024

Sika 2024 annual meeting webcast
<https://bit.ly/4bCMzOI>

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