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積水ハウス取締役ポスト争奪、「ESG 銘柄のガバナンス不全」に投資家動く

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(English)

Sekisui House Proxy Fight, Investors make a move in a governance failure case at an ESG company

Interview

- Isami Wada, former Chairman & CEO, Sekisui House
- Christopher Douglas Brady, Chairman & CEO, Chart Group, L.P. and Chart National L.P.
- Pamela Fennell Jacobs, Chief Sustainability Officer, Spouting Rock Asset Management
- Fumiyasu Suguro, Director & Senior Managing Officer, Sekisui House

【2nd Part】

Diamond editor team

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In mid-February 2020, Sekisui House's former chairman and CEO Mr. Isami Wada of Sekisui House made a shareholder proposal to renew the company's management team. It proposes a total of eleven slate directors, including himself, be elected at the annual general meeting of shareholders in April. The shareholders' interest must be in whether the shareholder proposal will help increase business and stock performance. Mr. Wada and others pointed out a governance failure and aimed at strengthening governance, which may look weak to the shareholders as a factor to improve performance. However, in recent years, an increasing number of institutional investors, primarily pension funds, select investment destinations from the perspective of ESG (environment, society, governance). When putting that perspective first, which would the shareholders support, the current management team, which is performing well, or the shareholder proposal, who argues poor governance at the company? Following the 1st part, Diamond editor team exclusively interviewed, in addition to Mr. Wada, Mr. Fumiyasu Suguro, current Director and Senior Managing Officer, Mr. Christopher Douglas Brady who is familiar with anti-money laundering, and Ms. Pamela Fennell Jacobs, an ESG expert. (Interviewers: Diamond editor team - Masami Usui, Takeshi Shigeishi)

ESG investors want to know more

—Who will you talk to with this shareholder proposal?

Mr. Brady We are close to the US and overseas investors that make up about 20% of Sekisui House's shareholders, and we are also talking to Japanese institutional investors.



Christopher Douglas Brady / Born in 1954. Chairman and CEO of Chart Group in the U.S. He has experience and knowledge in national security, risk management, and anti-money laundering. He served as President George Bush's New Jersey campaign manager, and is close to the U.S. government. Mr. Wada's acquaintance Photo by Toshiaki Usami

—One of Sekisui House's major shareholders in Japan is the GPIF
(Government Pension Investment Fund, which manages pension reserves. As

of the end of March 2019 based on GPIF documents). GPIF considers ESG (Environmental, Social and Governance) elements, which are non-financial information, for investment decisions. Sekisui House has been arguing that ESG management is in place, but the shareholder proposal points out that there is a "governance failure" at Sekisui House. So is G (governance) at Sekisui House wrong?

Ms. Jacobs Exactly. E (environment) is good. S (society) is a bit uncertain, but Sekisui House's eco-friendly building, respect for the environment, and the attitude of working with the community are highly appreciated. On the other hand, we recognize that in G (governance) the company has considerable problems. It's a pity that governance is damaging the overall ESG at the company.

(Editor's note: In the shareholder proposal, the Personnel and Compensation Advisory Committee of Sekisui House determined that Chairman Toshinori Abe (then President) should be dismissed due to the responsibility of the land fraud incident, but this was ignored and the current management team continues to

control the company. Also there has been a material information cover-up where the company continues to resist the disclosure of the full-text of the investigation report. Due to these the shareholder proposal determined that there is a governance failure at the company.)

—If the current management team continues to control the company, will the ESG investors move away?

Ms. Jacobs First, the ESG investors will try to find out the truth. We have spoken with many US investors investing in Sekisui House from an ESG perspective. Everybody says, "I want to know more." This week we have a conference call with those investors.



Pamela Fennell Jacobs / Born in 1960. Chief Sustainability Officer of Spouting Rock Asset Management in the U.S. She is an ESG (Environmental, Social and Governance) expert and engages in activities that emphasize ESG goals for public companies. Also provides consulting services, lectures, etc. Photo by T.U.

—Earlier this year, BlackRock increased its shareholding in Sekisui House, making it the third largest shareholder. Is this tied to your move?

Ms. Jacobs No. There are three major asset managers in the U.S.: Vanguard, BlackRock, and State Street. They are doing indexed-based (linked to stock indices) investments and they buy and sell shares based on the market. For

Sekisui House there are some facts they can hardly know, so they will want to know more about the company. As we provide more, they can know more.

Larry Fink, CEO of BlackRock, has written a letter to all the companies they are investing in. The letter requested that the companies take ESG more seriously and that information on ESG be more disclosed.

—In addition to making a shareholder proposal, are you going to request to view shareholder register and seek support from a broader shareholder base?

Mr. Brady Yes, that is our plan.

Ms. Jacobs This is an activist approach. As a shareholder, we believe that more information should be disclosed.

Even all the current representative directors are gone, we won't accept any director the current management proposes

—Sekisui House's business performance has been strong. Have the issues raised by the shareholder proposal affected the business performance?

Mr. Wada The business of a housing company or a construction company needs a preparation period of about three years and anything wrong does not immediately appear in the business performance. The company's U.S. business should have made considerable profit this year. That's because it's time to sell your business that we started several years ago.

In our domestic business, we are concerned that the morale of salespeople has been damaged by the management that covers up issues, and that it will have a negative impact one or two years from now. The fact that investment in the U.S. has been curtailed will have an effect in the next three or four years. Research analysts may see it favorably because debt is reduced, but that is not good for the business.



Isami Wada / Born in Wakayama Prefecture in 1941. After graduating from Kwansei Gakuin University, joined Sekisui House. He excelled in home sales and has been a well-known business leader for 20 years since he became President in 1998. Since becoming Chairman and CEO in 2008, he has led overseas business. In conflict with the then President Toshinori Abe in connection with the land fraud case, he was dismissed in 2018. Photo by T.U.

—Although the governance has been emphasized this time, it is important for shareholders to see a stock price growth or a business strategy that will help grow the business. Do you think the current management team should focus more on overseas business?

Mr. Wada First they should revamp the main business in Japan once again.

In the overseas business I think the U.S. should be further strengthened.

Mr. Suguro Even though the U.S. business should be further strengthened, it

does not mean that the U.S. is our sole focus. The U.S. is only one of the

business regions, and there are also the rest of the overseas. And the

domestic business, our founding business, is also very important.

Mr. Wada The company has to last forever, so when you harvest, you have to

do sowing at the same time. Everyone criticizes when sowing and everyone is

pleased when efforts pay off. Eventually, all the seeders are gone. People in

the U.S. take care of those who sowed together. Japanese people tend to be

reticent and forget who sowed.

—Mr. Wada, who was ousted in the coup, stands up – it gives us the

impression of "another factional dispute" or "internal conflict."

Mr. Wada If that is the case, I would not come out in this way. I worked for

the company for decades and managed to grow it, and now the company has

24,000 employees. If you add their families or those at our partner companies,

there are hundreds of thousands of people who might be affected. In order to better the future of these people, I have to make the company better. The company should not be controlled by a few people. Governance has to function there.

Right now, there are few executives with a sales & marketing background.

Most of them are with a management division background. If a majority of the top executives are those with a management division background, it goes wrong. Also, you should empower more executive officers and create ideal workplaces for young people.

—Nevertheless, since shareholders and investors will view this as an “internal conflict”, it would be good to see the four representative directors (who conflicted with Mr. Wada) resign, but some people may not want to see Mr. Wada return to the leadership instead.

Mr. Wada I do not plan on staying there that long. I will resign (from the director) early and will entrust the management to young people. I thought

that it would be disastrous to the company to have such management team, so I decided to make a shareholder proposal.

Also, I see a total of six executives very problematic, not four. In addition to the four representative directors, Nishida (Kunpei Nishida, Director and Senior Managing Officer) and Horiuchi (Yosuke Horiuchi, Director and Senior Managing Officer) helped with the coup, so I need to see them gone, too.

—If the company presents new slate directors without the six problematic directors, would it be fine for the company not to be run by the slate directors you have proposed in the shareholder proposal?

Mr. Wada No, I would not accept whomever they chose or whomever infected with them.

—Otherwise you would not be able to conduct an investigation of the incident?

Mr. Wada Correct. I would like them to leave the company gracefully.

—Is there any chance that the shareholder proposal will get the majority of the approval at the general meeting of shareholders?

Mr. Wada You should not allow any cover-up of material information. If we can make people understand that, the situation will change in our favor. Last time (the shareholder meeting in April 2018), Mr. Abe's re-election of director was rejected by 30%. We did not make a shareholder proposal at that time, and yet many shareholders voted against him.

Mr. Suguro It is important for the shareholders to see how well a company can contribute to society and execute its growth strategy. I want to make a highly transparent company, rather than a company without governance well functioning due to cross-shareholdings between companies.

One of Japan's authorities in corporate governance expressed a concern over this matter as well as his support for us forming a board with thorough governance.



Fumiyasu Suguro / Born in 1957. Joined the company in 1982. Assumed Chief Secretary, Senior Manager of International Business Department, then Managing Officer in 2012, Director in 2014, Senior Managing Officer in 2016. Current Director and Senior Managing Officer responsible for international business, however he is one of the slate directors. Photo by T.U.

(Editor's note: In the shareholder proposal, four internal slate directors, including Mr. Wada, Mr. Fumiyasu Suguro, Director and Senior Managing Officer, Mr. Motohiko Fujiwara, a former Managing Officer (resigned in 2019), and Koji Yamada, former CEO of North America Sekisui House (resigned in 2019), as well as seven outside slate directors have been proposed. Currently, Sekisui House has three outside directors.)

—Ultimately, you plan on improving the governance at Sekisui House so the company can even be listed, if you choose to, on the New York Stock Exchange where listing standards are much stricter, such that a majority of directors must be outside directors?

Mr. Suguro It may be a little too premature to discuss it, but it will make it easier for the investor to buy our stocks. It will also lead to us receiving harsh opinions, but the Board of Directors should be able to properly deal with such opinions. I am hoping that our shareholder proposal provides a good chance to promote that discussion.