# Safeguarding the social mission of The Ethical Property Company

## ETHICAL PROPERTY WANTS YOUR VIEWS!

**The Ethical Property Company is 21 years old this year, and remains committed to maximising its social impact. However, there is always a danger that as it grows the Company loses sight of its social objectives or falls too heavily under the influence of one shareholder who may not have the best interests of the Company at heart.**

To ensure that the Company's mission is better protected, we are proposing five simple changes to the Company's articles of association, which is the governing document that specifies how the Company operates and how we define our principles and purpose.

We plan to bring these proposals forward for shareholders to vote on at our EGM in Bristol on November 19th. But first, we wanted to get your views. So if you have opinions or questions on what we are proposing, please do get in touch as soon as you can by undertaking our survey, which you can find on our website at www.ethicalproperty.co.uk/consult or by emailing invest@ethicalproperty.co.uk

### What will happen at the EGM?

At the EGM, we will be asking you to pass a resolution approving a new set of articles that will include all of the five changes mentioned below. This resolution will need 75% of share votes cast to be in favour for it to pass.

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# What are the five proposals?

**The essence of our approach is two-fold. First, to enshrine the most important principles of the Company in its articles, so that they cannot be changed without shareholder approval. And second, to make the Board more accountable to the shareholders.**

1

## Including a commitment to the Quintessentials in the Company's articles

As a Company owned by shares, The Ethical Property Company does not have the same mission-lock that a charity or community benefit society has. Instead, back in 2011, the company produced the Quintessentials, which set out the five essential principles for how to manage the company on an ethical basis, as well as how to go about reporting its social impact to shareholders each year.

Our articles include a commitment that the Board of Directors should manage the Company in accordance with the Quintessentials. But this is not as strong as it might be, because the Board is able to change the Quintessentials as it sees fit, without reference to the shareholders. We now want to include the Quintessentials themselves in the articles.

2

## Creating an approved framework for adherence to the Quintessentials

The Quintessentials provide clear instruction on how we should manage the Company to optimise its social, environmental and financial impact. They lay out in detail all of the areas in which we should report our performance, and the targets we should aim to reach, so that the Company can demonstrate how it is adhering to them. However, these reporting requirements do now need to be updated.

We want to give the Board of Directors the freedom to change this reporting framework from time to time, so that they can ensure that it remains relevant and up to date. But at the same time, we want to make sure that the board remains accountable to the shareholders for maximising the Company's social impact.

We plan to include in the articles a requirement that the Board must produce an 'Adherence Framework' that sets out how the Company will demonstrate that the Quintessentials are well met. This Adherence Framework will detail all the areas that the Company should report on in its social audit. The articles will also require that the framework is reviewed by the Board and re-presented to shareholders at least every five years.

3

## Giving shareholders a vote on the social audit

Under company law, a public company must present its financial audit to its shareholders to vote on each year at its AGM. As we are a business that values its social and environmental returns equally to its financial returns, we feel that our social audit should also be presented to shareholders to be voted on, giving our shareholders the power to say whether or not they think the Quintessentials have been well met.

This report would be produced in line with the Adherence Framework, and would detail any breaches of the Quintessentials, and how and by when they will be remedied. The report would be externally audited to give all our stakeholders greater confidence in its accuracy.

There would also be a requirement for the shareholders to vote on the Company's choice of social auditor each year, in the same way there is for the financial auditors, so that shareholders can be confident that the social auditor is both competent and independent.

4

## Making sure that all shareholders have a say

Currently as few as 1% of all shareholders can control 50% of all votes and 8% of shareholders can control 75%. A low voting turnout further concentrates this power.

At the moment, any amendments to our articles require 75% or more of shares voted to be in favour. But we want to add two further voting requirements that will mean that all shareholders have a say in any changes to our articles.

The first is that a minimum of 15% of shareholders (rather than a minimum percentage of shares) would have to vote for the vote to be valid, so that we know that enough shareholders have participated in the decision. This 15% turnout requirement is based on historical figures for the proportion of shareholders voting at each AGM, which have ranged from 13% to 38% when both those who came to the AGM itself and who voted by post are included.

The second is that 50% or more of the shareholders voting must be in favour of the change, as well as 75% of the shares voted. So more than half of the actual number of shareholders voting must be in favour, not just 75% of the voted shares.

The impact of these change would be to give a greater voice to the shareholders as a whole, and also to incentivise the Company to encourage greater shareholder participation.

5

## Switching to a PLC

We were a PLC from 1999 till 2011, but moved to being a private company after the global financial crisis, as both the fall in property prices at that time and being a PLC limited our ability to pay dividends.

Being a PLC requires greater accountability to shareholders in a number of areas, which we think will help to safeguard our mission. For example, a shareholder vote must be held when directors are appointed or when new share capital is raised, and an AGM must be held each year. Also, only public companies can offer shares to the public.

Becoming a PLC will not require major changes to our articles, as they are still worded as if we were a public company. However, the articles were originally produced in 1999, and we plan to update them to better reflect the recommended model articles for a public company, which take better account of recent legal and other changes.

*An imaginary example*

## Greater accountability for our social audit

The Company presents its social audit to its shareholders at the AGM. The results are impressive, but there is one weak area - the ratio of the salaries of the highest and lowest employees is 9 to 1 when the Adherence Framework says that it should not exceed 7 to 1.

The Managing Director explains that the Company feels it needs to pay higher salaries to attract the best calibre of staff. However, the shareholders still vote down the social audit.

The Company decides to raise the salaries of both the highest and the lowest paid workers, however the salary differential is still 8 to 1. So, at the next AGM, shareholders are asked to update the Adherence Framework, so that the salary differential is 8 to 1 instead of 7 to 1. This change is approved by the shareholders.

*An imaginary example*

## Voting out a new class of share

A social finance institution wants to invest several million pounds in the Company, but will only to do so if they are issued a new class of share. These shares will have the same rights as the existing shares, except that they also give the investor a permanent right to a seat on the Board of Directors. This requires a change to the articles and so must go to a shareholder vote.

Several of the largest shareholders support this change, however many of the smaller shareholders are opposed to it. When the votes are cast, 80% of the shares voted support the change, which passes the 75% hurdle. Also 19% of all shareholders vote, meeting the required 15% threshold. However, only 45% of the shareholders that vote support the change and 55% vote against. This means that the introduction of the new class of share is rejected.

## Take the survey

We are really keen to get your view on these proposals, and to answer any questions you might have in advance of the EGM.

So please do get in touch by undertaking our survey, which you can find on our website at **www.ethicalproperty.co.uk/consult** or by emailing **invest@ethicalproperty.co.uk**

## And finally...

Thank you for your continued support for The Ethical Property Company and for making it possible for us to do what we do. We are working hard to continue to improve our performance, and welcome your feedback at any time.

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