

Exercise of voting rights by asset management companies

Asset managers account for a significant portion of the total stock market capitalization through the assets they manage. In accordance with their Code of Ethics, they perform their duties completely independently, notably as regards issuers, and act solely in the best interest of their clients.

In line with the conviction that **good corporate governance** increases the value of their clients' investments, French asset management companies intend to exercise their rights and duties as shareholders. In particular, AFG encourages managers to participate actively in the general meetings of listed companies.

More globally, AFG's engagement in corporate governance is part of its broader efforts to promote long-term savings, enhanced assets quality and responsible investment.

Encouraging asset managers to take part in general meetings

As early as 1997, AFG Code of Ethics strongly recommended that management companies exercise their voting rights in the interest of their clients. In particular, it specifies that *"voting rights must be exercised freely... with no other consideration than the investors' best interest"*. Since 2003, French law also requires fund management companies to exercise their voting rights and, if relevant, to explain why they do not.

Reporting on the active involvement of asset managers

Each year AFG Members fill out a questionnaire on how they vote. An analysis of their responses reveals a **growing involvement of asset managers** in general meetings and their active opposition to resolutions that are contrary to their voting policy. Over the recent years, we observed a continued increase of the participation of asset managers in general meetings as well as a sharp improvement of the dialogue and of the quality of exchanges with issuers.

This analysis (in French) is available on our website at www.afg.asso.fr



For more than 20 years, the asset management profession has taken proactive and increasingly enhanced measures regarding corporate governance.

- 1997:** in its Code of Ethics, AFG **recommends that managers exercise voting rights**. Creation of the **"Corporate Governance" Committee** chaired by **Jean-Pierre Hellebuyck**.
- 1998:** publication of **Recommendations on corporate governance** relating to the general meetings and boards of directors of listed companies.
- 2000:** a **watch programme** is created to facilitate the exercise of management companies' voting rights by alerting them when resolutions submitted to the general meetings of CAC 40 companies go against these recommendations.
- 2002:** two new milestones are reached:
 - the alerts sent to members are henceforth made public on the AFG's website (www.afg.asso.fr) ;
 - the watch programme is expanded to include the SBF 120.
- 2007:** creation of the **"Sustainable finance and responsible investment" Chair**, one of the main areas of which is issues related to the governance of socially responsible companies.
- 2001, 2004 and every year since 2006:** update of the AFG's Recommendations.

Vote effectively to manage efficiently

The main results of the 2018 enquiry are as follows:

■ Increase in voting and international coverage

- ▶ The increase in attendance at general meetings (GMs) continued in 2018: +1% overall year-on-year, including +5% in Europe. Almost two-thirds of Asset management companies (AMCs) increased their attendance at GMs.
- ▶ AMCs are gradually extending their voting scope to new geographic areas, with general meetings of foreign issuers now representing 4/5^{ths} of GMs attended by AMCs.

■ Effective exercise of voting rights reflects enhanced level of engagement of AMCs

- ▶ AMCs rejected approximately 1/5th of all resolutions proposed.
- ▶ They cast at least one vote “against” at 4/5^{ths} of French GMs, and at 70% of foreign GMs, where the scope of resolutions is usually more restricted than in France.

■ Discrepancies remain between resolutions proposed at GMs and voting policies of AMCs

- ▶ AMCs are vigilant about any measures that risk undermining the rights and interests of their clients. AMCs voted against more than half of resolutions in French GMs pertaining to anti-takeover measures, and more than a third of resolutions on financial operations/mergers.
- ▶ Resolutions on remuneration (i.e. on pay, free shares, options etc.) again resulted in AMCs casting dissenting votes: more than 2/5^{ths} of resolutions were opposed. AMCs also criticised a lack of transparency in the *ex-ante* and *ex-post* presentation of criteria for allocating variable remuneration, stock-options and free shares.

■ Intensification of dialogue and a fairly positive assessment of issuer governance

- ▶ In addition to the exercise of voting rights, there is a systematic growth in upstream dialogue of GMs in respect of the main positions in the portfolio, which is targeted at areas for improvement identified by the engagement policy.
- ▶ Almost 3/4 of AMCs are engaging in dialogue about governance with the companies they are voting on behalf of at GMs. The main topics of discussion are the composition and functioning of the board of directors and committees, remuneration policies and their *ex-post* implementation, financial operations and anti-takeover mechanisms, and CSR issues.
- ▶ Overall AMCs have a fairly positive view of the quality of governance of the issuers they are investing in. However, they do expect improvements, especially by some foreign issuers, concerning the structure of decision-making bodies, the proportion of independent directors, and the power of shareholders at GMs.

The Association Française de la Gestion financière – AFG (French Asset Management Association) represents and promotes the interests of third-party portfolio management professionals. It brings together all asset management players from the discretionary and collective portfolio management segments. The latter manage nearly €4,000 billion worth of assets, i.e. a quarter of continental Europe’s asset under management.