Monthly Roundup

Georgeson

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Dear All,

Please find below a rundown of recent corporate governance news and developments that have taken place around the world:

Shareholder Activism

- The Financial Times reports that **Dutch court rejects Elliott call to oust Akzo chairman**: https://www.ft.com/content/b2eded50-449e-11e7-8d27-59b4dd6296b8. "Akzo Nobel, the Dutch paintmaker, received a boost to its efforts to fend off an unwanted €26.9bn takeover approach from US rival PPG Industries as an Amsterdam court rejected attempts by an activist investor to oust its chairman. Elliott Advisors had asked the Enterprise Chamber, a commercial court of the Netherlands, to overturn Akzo's rejection of its call for a special shareholder meeting to remove Antony Burgmans, who is seen as an obstacle to talks with PPG. Akzo, owner of the Dulux brand, has rejected three unsolicited offers from PPG since March, arguing that they undervalue its business, and the deal would lead to big job cuts and trigger a lengthy review by competition authorities. […] In a ruling on Monday night Gijs Makkink, president of the Amsterdam court, said Akzo was not obliged to involve shareholders in its decisions regarding the PPG bid and was not required to start talks."

- Reuters reports that **Bosnian activists fail to secure seats on Grammer supervisory board**: https://www.reuters.com/article/grammer-ma-agm-idUSL8N1IQ547. "Bosnia's Hastor family failed in a bid to get three representatives onto the supervisory board of German vehicle components supplier Grammer at the annual general meeting of shareholders on Wednesday. The Bosnian activist investor, with a stake of around 20 percent, sharply criticised Grammer's management, while a rival group with a 15.1 percent stake, led by China's Ningbo Jifeng Auto Parts Co, backed management proposals. Shareholders representing 67.32 percent of Grammer's equity capital submitted their votes at the meeting, Grammer said. The Hastor family had demanded three seats on the supervisory board and contested the outcome of the AGM even before the final vote had been counted. Cascade Investment International GmbH, a company controlled by the family, had accused Grammer's management of market manipulation to help Ningbo Jifeng build a stake. Grammer has denied the allegation but said the company would see business suffer if the Bosnians increased their influence. Grammer's management also welcomed Ningbo Jifeng, another supplier of vehicle interior components, as a potential white knight."

- The Deal reports that **TCI to Safran: Link Bonuses to Zodiac Performance**: http://pipeline.thedeal.com/31/14151858/21278385.t. "Activist investor TCI Fund Management Ltd. plans to vote against Safran SA's revised €7 billion ($7.8 billion) offer for Zodiac Aerospace SA unless Safran management, including its CEO, agree to link about 50% of their bonuses to the future performance of the target. […] London-based TCI, which owns 4.1% of Safran, delivered the ultimatum after Safran on Wednesday lopped 14% off an earlier bid for Zodiac and changed the structure to give shareholders a vote on the bid. Safran will offer €25 per share in cash or 0.3 to 0.33 of one of its own shares for each share of Paris-based Zodiac, with the share offer capped at 31.4% of Zodiac's shares. Safran, in January, agreed a cash and share offer of about €29 per Zodiac share before demanding new negotiations following a profit warning at the target. The revised offer won qualified praise from TCI but failed to overturn the activist's intention to vote against a deal, which it claimed remained too expensive and was premised on a turnaround of lossmaking Zodiac that TCI doubts Safran's management can deliver."

- Bloomberg reports that **Whole Foods Investors Applaud Shake-Up, But Jana Isn't Satisfied**: https://www.bloomberg.com/news/articles/2017-05-10/whole-foods-said-to-shake-up-board-in-response-to-jana-pressure. "Whole Foods Market Inc. shareholders are cheering the company's efforts to overhaul its board, cut costs and reignite sales. But Jana Partners, which has been pushing for a shake-up, isn't yet satisfied. The activist investor is maintaining a wait-and-see attitude in the wake of the changes, which include the appointment of five independent directors and a new chairman. Whole Foods had hoped to reach a truce with the firm, which announced a 8.3 percent stake in the supermarket chain last month. But Jana rejected the idea, preferring instead to keep its options open. Whole Foods co-founder John Mackey is under pressure to prove he can mount a turnaround after seven quarters of sliding sales. When it disclosed its holding in the company in April, Jana vowed to push for big changes – including a possible sale of the business."

- The Independent reports that **Nearly 94% of Shell shareholders reject emissions reduction target in line with Paris climate agreement**: http://www.independent.co.uk/environment/shell-shareholders-94-per-cent-emissions-reduction-target-reject-paris-agreement-climate-change-a7751681.html. "Shareholders at the oil giant's annual general meeting at The Hague spent hours questioning Shell's board members, who said that while the company supported the Paris agreement, setting company targets was 'not in the best interest of the company'. However, in a vote, nearly 94 per cent of shareholders rejected the idea of setting and adhering to emissions targets. Chief executive Ben van Beurden insisted Shell was making progress in lowering its emissions." Bloomberg reports that **Occidental Holders Override Board in Approving Climate Proposal**: https://www.bloomberg.com/news/articles/2017-05-12/blackrock-to-back-climate-shareholder-proposal-at-occidental. "Occidental Petroleum Corp.'s shareholders approved a proposal Friday to require the oil and gas exploration company to report on the business impacts of climate change, marking the first time such a proposal has passed over the board's objections. The resolution, initiated by a group of investors including the California Public Employees' Retirement System, received more than 50 percent of the votes at Occidental's shareholder meeting in Houston on Friday, according to spokesmen for the company and Calpers." See the Calpers statement here: https://www.calpers.ca.gov/page/newsroom/calpers-news/2017/climate-risk-reporting-passes-occidental-petroleum.

- The Economist reports about **A boss's guide to fending off an activist attack**: http://www.economist.com/news/business/21721953-activist-funds-have-moved-being-gobby-bad-boys-markets-bosss-guide-fending. "Instead of getting angry, CEOs need to get even. Schumpeter has put together a battle drill on how to cope with activists. It has four elements: know the enemy; prepare for them to attack; smother them with sincerity; and make concessions if you have to. Start with understanding activists, who play a useful role. As money flows into low-cost index funds, the job of scrutinising firms is being outsourced to a few dozen specialist vehicles. These analyse firms and seek the backing of the 'lazy' money. A small fund with a good idea can win support to oust a big firm's board. […] Preparing for the possibility of an activist attack is essential. As well as running the firm properly, that means getting closer to your other shareholders. Even companies under no obvious threat do this. For example, in 2016 and early 2017 members of Bank of America's board of directors met or spoke by phone with investors representing 29% of the bank's shareholder base."

- The Financial Times reports that **Elliott brings a 'prosecutorial' approach to activist investing**: https://www.ft.com/content/541d8f8e-3a3e-11e7-821a-6027b8a20f23. "If Hitachi, the Japanese conglomerate, thought it would be a routine matter to buy out the remaining investors in an Italian rail signalling equipment company where it had just become the largest shareholder, then it did not reckon on Paul Singer's Elliott Management. For the past two years, Hitachi's planned takeover of Ansaldo STS has been under a multi-pronged legal attack, orchestrated by Elliott, that has included multiple complaints to the Italian markets regulator, a complaint to the country's auditing board and a lawsuit. For Elliott, this is business as usual. The $32.8bn fund and its billionaire Republican donor founder are an anomaly among activist hedge funds because of their readiness for a very protracted fight and the very broad legal tools they employ to win. Elliott is battling on multiple fronts. It is demanding, among other things, that BHP Billiton spin off its US petroleum business, Akzo Nobel accept a takeover offer and Samsung break itself up. Last week it disclosed an activist stake in Gigamon, a network-monitoring company."

- The Australian Financial Review reports **Expect more shareholder activism Down Under, warns Credit Suisse**: http://www.afr.com/business/banking-and-finance/hedge-funds/expect-more-shareholder-activism-credit-suisse-20170522-gwadww. "Chris Young of Credit Suisse says it was inevitable that activist hedge funds would target Australian companies. He adds that the investment bank's research suggests that BHP Billiton will not be the only Australian company to attract the interest of activists. Young says the best defence against activists is for a company to ensure that it has the support of key shareholders. He also notes that the relatively small size of the Australian market means activist funds may get less traction than in the much larger US market."

Europe…

- The Official Journal of the European Union **has published the new Shareholder Rights Directive (Directive (EU) 2017/828)**: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017L0828&from=EN. The Directive is "aimed at strengthening shareholders' engagement in big European companies": http://www.consilium.europa.eu/en/press/press-releases/2017/04/03-shareholder-rights-eu-companies/. "The directive will encourage transparent and active engagement by shareholders of listed companies by reviewing the current Shareholders' Rights Directive (2007/36/EC). The financial crisis revealed that shareholders in many cases supported managers' excessive short-term risk taking. The revised directive is intended to redress this situation and contribute to the sustainability of companies, which will result in growth and job creation. The new directive establishes specific requirements in order to encourage shareholder long-term engagement and increase transparency. These requirements apply to: 1) remuneration of directors; 2) identification of shareholders; 3) facilitation of exercise of shareholders rights; 4) transmission of information; 5) transparency for institutional investors, asset managers and proxy advisors; and, 6) related party transactions. […] Member states will have up to two years to incorporate the new provisions into domestic law."

…and beyond

- The Financial Times reports that **BlackRock defeats investor challenge over pay policy**: https://www.ft.com/content/f0311d3e-4162-11e7-82b6-896b95f30f58. "BlackRock has warded off an attempt to force the world's largest asset manager to harden its stance on executive pay, after winning over the vast majority of shareholders at its annual general meeting. The New York-based fund house was targeted ahead of its shareholder meeting by Steve Silberstein, the millionaire philanthropist, over the asset manager's voting record on executive pay. His concern was that BlackRock, which has a stake in thousands of companies globally, votes in favour of management pay proposals too often and has a more lenient voting record than many of its competitors. Mr Silberstein, a BlackRock client and shareholder, lodged a proposal calling on the fund house to issue a report outlining how it would bring its voting practices 'in line with its stated principle of linking executive compensation and performance'. He filed a similar proposal last year. BlackRock, which oversees $5.4tn of assets, recommended that shareholders reject the motion, as did three influential advisers to large investors. The motion was rejected by approximately 97 per cent of shareholders, according to preliminary figures."

- The International Corporate Governance Network (ICGN) has published a paper entitled **Share buybacks and their governance implications**: https://www.icgn.org/sites/default/files/2_May%202017%20Share%20buybacks%20and%20their%20governance%20implications%202.pdf. "The Viewpoint report […] examines the arguments in favour or against the use of share buy-backs as an instrument for managing capital. It identifies critical questions that should be asked by shareholders and boards around share buy-backs, particularly in relation to capital allocation, calculation of net present value and impact on remuneration." See the full document here: https://gallery.mailchimp.com/0acb1a2e7e8d9ea8bb9a9fc1d/files/a7eba777-92b8-40aa-af5c-847a7a05cdd1/ICGN_Viewpoint_Sharebuybacks_and_their_governance_implications_May_2017.pdf.

- City A.M. has published an essay entitled **Why the rise and rise of passive funds should strengthen corporate governance**: http://www.cityam.com/263818/why-rise-and-rise-passive-funds-should-strengthen-corporate. "In a way passive funds also have more reason to be active with management than active funds. An active fund can simply sell shares when management misbehaves or makes a foolish decision. A passive fund has to hold, and has every reason to want to help the company improve. Some active managers go short of shares, where they actually want the company to do badly. The passive manager wants all the shares in the index he seeks to replicate to do well. A group of US academics has examined the impact of passive investors on US shares. In a couple of studies, Gormley, Keim and Appel have found that companies with a higher proportion of passive shareholders tend to have more independent directors and to be under more pressure to have shareholder friendly governance. They also found that a 10 per cent increase in passive ownership can lead to a better return on assets, from their study of the Russell 2000 companies. Apparently passive houses are more likely to vote against management proposals as well as voting for activist demands for better governance. In short, there is growing interest by institutional shareholders across the board in voting on big corporate decisions like mergers or disposals, and to take a view on the level of management pay and its relationship to company performance."

UK

- The Guardian reports that **Pearson shareholders reject chief executive's £1.5m pay package**: https://www.theguardian.com/business/2017/may/05/pearson-shareholders-reject-pay-revolt-john-fallon. "More than six out of 10 Pearson shareholders have voted against the £1.5m pay package awarded to the embattled chief executive, John Fallon, after the educational publisher reported the largest annual loss in its history. Fallon received a 20% pay rise last year, including a bonus of £343,000, despite the company recording a record loss of £2.6bn. Disgruntled investors expressed their anger at the company's annual general meeting in London on Friday, with 61% voting to reject the remuneration report and nearly 7% abstaining in the non-binding vote. According to corporate governance group Manifest, the protest was the largest shareholder rebellion at a FTSE100 company since 90% voted against Sir Fred Goodwin's pension arrangements at Royal Bank of Scotland in 2009."

- MarketWatch reports that **Inmarsat to review exec pay after shareholder vote**: http://www.marketwatch.com/story/inmarsat-to-review-exec-pay-after-shareholder-vote-2017-05-04. The Telegraph reports that **Ladbrokes shareholders bet against directors' pay**: http://www.telegraph.co.uk/business/2016/05/05/ladbrokes-shareholders-bet-against-directors-pay/. City A.M. reports that **Balfour Beatty receives a slap on the wrist from shareholders over its pay policy at its AGM**: http://www.cityam.com/265019/balfour-beatty-receives-slap-wrist-shareholders-over-its. The Telegraph reports that **Shipbroker Clarkson caught up in shareholder storm over bosses' pay**: http://www.telegraph.co.uk/business/2017/05/12/shipbroker-clarkson-caught-shareholder-storm-bosses-pay/. The Guardian reports that **Shareholders revolt over executive pay at Foxtons and Paddy Power Betfair**: https://www.theguardian.com/business/2016/may/18/shareholders-revolt-executive-pay-foxtons-paddy-power-betfair-agms. Reuters reports that **Hedge fund Man Group hit by new investor rebellion over pay**: http://uk.reuters.com/article/us-man-group-agm-idUKKBN1811NI. The Telegraph reports that **Investors protest Johnston Press bonus plans despite abandoned increases**: http://www.telegraph.co.uk/business/2017/05/22/investors-protest-johnston-press-bonus-plans-despite-abandoned/.

- The Financial Times reports that **Auditor merry-go-round fails to shake-up cosy market**: https://www.ft.com/content/1bed176a-3f98-11e7-9d56-25f963e998b2. "For the first time in three decades, BT is planning to switch its auditor, accelerating a plan to replace PwC after an accounting scandal at the telecoms group's Italian division. But despite the audit job being worth around £9m a year, competition is limited. There are only two viable candidates. BT's problem is symptomatic of Britain's audit market, which is overwhelmingly dominated by four firms – EY, Deloitte, KPMG and PwC – and often perceived as hamstrung by conflicts of interest. Despite new regulation designed to increase choice and competition, the so-called big four audit 98 per cent of FTSE 350 companies."

- Sky News reports that **Investors need bigger say to tackle executive pay - IoD**: http://news.sky.com/story/investors-need-bigger-say-to-tackle-executive-pay-iod-10870888. "The next government should give investors a bigger say on pay levels at listed companies to help restore public trust, according to the Institute of Directors (IoD). The organisation said it recognised that confidence in rewards had been low since the financial crisis, with many shareholder rebellions often resulting in no changes to pay policies. It suggested that if 30% of investors oppose a remuneration report at an annual meeting, the company should have another look and then allow shareholders a fresh vote." See here for the IoD's proposal: https://www.iod.com/news-campaigns/news/articles/Building-on-our-Corporate-Governance-Lead.

- The Pre-Emption Group has published its **Monitoring Report**: https://frc.org.uk/News-and-Events/FRC-Press/Press/2017/May/The-Pre-Emption-Group-publishes-Monitoring-Report.aspx. "The Pre-Emption Group has released a monitoring report looking at implementation of the Statement of Principles and the template resolutions. Over the course of the year the template resolutions and Statement of Principles have generally been followed. The Statement of Principles provides a framework for early and effective dialogue and is supported by The Investment Association and the Pensions and Lifetime Savings Association. However, possible examples of poor consultation or disclosure have been brought to the Group's attention. To assist companies the Group has published an Appendix of Best Practice in Engagement and Disclosure. The Appendix reiterates the Group's view that engagement must address both the spirit and letter of the Statement of Principles. Consultation about proposed issuances must be specific and unequivocal, and the topic of whether or not pre-emption authority is to be utilised must be explicitly addressed." The full document is available here: https://frc.org.uk/FRC/media/Documents/May%202017/170512-PEG-monitoring-report.pdf.

- The Financial Times reports that **FTSE companies avoid shareholder wrath on pay at AGMs**: https://www.ft.com/content/2e001b72-36f7-11e7-99bd-13beb0903fa3. "Ahead of this year's shareholder meeting season, investors predicted more fiery and confrontational exchanges than in previous years, as they prepared to take a stand against high executive pay. But British companies have largely dodged the fireworks. Only two big FTSE groups, educational publisher Pearson and housebuilder Crest Nicholson, have lost votes on pay after attempting to push through more generous packages. There have been significant protest votes elsewhere, including at FTSE 100 pharmaceutical group AstraZeneca, satellite operator Inmarsat, and Drax, owner of the UK's largest power plant. Thirteen FTSE 350 groups have recorded dissent votes of more than 20 per cent against their remuneration reports so far this year, according to data from Manifest, the voting agency. But none of these upsets has been as momentous as investors' rejection of Bob Dudley's pay package at BP's shareholder meeting last year, the one-third vote against Sir Martin Sorrell's £70m remuneration at WPP, or the day when FTSE 250 engineer Weir, drugmaker Shire and building materials group CRH all suffered 40 per cent votes against their pay proposals."

France

- The Financial Times has published a letter from Paul Lee (Aberdeen AM's Head of Governance) entitled **'Inner circle' outvoting minority shareholders**: https://www.ft.com/content/0fbd7e68-3993-11e7-ac89-b01cc67cfeec. "The excellent Lex item on Vivendi ('Eyes wide shut', May 13) omits one crucial point regarding Vincent Bolloré's control of Vivendi and its decision to purchase for cash the 60 per cent of Havas owned by Groupe Bolloré. Groupe Bolloré owns only 20 per cent of Vivendi's shares. Mr Bolloré is able to wield control of the company – and of its cash pile – because of the French government's gerrymandering. Under the so-called Florange legislation, certain shareholders can claim double voting rights. It is Mr Bolloré's double voting rights that give him effective control of Vivendi, without having offered or paid a control premium. As Lex says, this may not suit minority Vivendi shareholders. […] Lex advises that investors should avoid Vivendi's shares. Naturally, we do avoid it in our active portfolios. But we are obliged to hold the company in the passive portfolios that we manage for our clients. We are increasingly seeing passive investors exploited by dual class share structures that limit the ownership rights of the bulk of shareholders while allowing an inner circle double or greater multiple voting rights."

- Reuters reports that **AccorHotels shareholders stick to double voting rights**:

http://www.reuters.com/article/us-accorhotels-agm-sarkozy-idUSKBN1811VJ. "The shareholders of AccorHotels on Friday granted former French President Nicolas Sarkozy a seat on the board of Europe's largest hotel group, and rejected a bid to block long-term shareholders from getting more double voting rights. […] Europe's largest hotel group has seen some big changes in its shareholder base recently, with investors from China, Saudi Arabia and Qatar now holding a combined 29 percent stake. Soon, these shareholders – which include Chinese competitor Shanghai Jin Jiang – could qualify for double voting rights under the company's rules. This led critics, including French shareholder advisory group Proxinvest, to say this could give them more control over the company without having to pay a premium for that advantage. Proxinvest had advised a group of 14 shareholders, led by Paris-based investment firm PhiTrust and representing 2.3 percent of AccorHotels's capital, which had filed a proposal to block the further granting of double voting rights. The proposal needed a two-thirds majority to be approved but received just 52.36 percent of the votes cast at the meeting."

› Les Echos Investir reports (in French) that **Air Liquide: Le salaire de Benoît Potier manque d'être refusé par les actionnaires ("Air Liquide: Benoît Potier's pay fails to be rejected by shareholders")**: https://investir.lesechos.fr/actions/actualites/ag-les-synergies-avec-airgas-realisees-aux-deux-tiers-avant-fin-2017-1671888.php#EhqCtWHt24x2ihLw.99. "The resolution on the say on pay concerning Benoît Potier was approved only with a narrow majority of 57.82%. In other words, 41.7% of shareholders voted against, presumably reflecting the opposition of many institutional investors. The say on pay of the deputy CEO Pierre Dufour obtained a 'less bad' score of 67.3%. The votes on the future compensation policy scored significantly better at 87.6% and 78.1%."

Germany

› The Financial Times reports that **Commerzbank shareholders reject plans for shorter AGM notice period**: https://www.ft.com/content/bdcd4689-9093-383b-b8f3-85f938bdeec8. "Investors blocked Commerzbank's plans to change the rules around how it convenes shareholder meetings at the bank's annual shareholder meeting in Frankfurt on Wednesday. Germany's second largest lender had wanted to give itself the option in future of shortening the notice period for convening general shareholders meetings to adopt resolutions on a capital increase."

› Reuters reports that **SAP narrowly wins shareholder backing after pay dispute**: http://www.reuters.com/article/us-sap-agm-vote-idUSKBN1861RQ. "SAP's supervisory board narrowly won the backing of shareholders at its annual general meeting on Wednesday after criticism of the German software company's executive pay. With almost 70 percent of SAP's share capital represented at the meeting, only 50.49 percent of votes were cast in favor of endorsing the actions of the supervisory board at Europe's largest technology company. Earlier, leading shareholder advisers urged SAP investors not to sign off the supervisory board's actions – a normally routine event at German shareholder meetings that effectively signals investor confidence in the board. Institutional Shareholder Services (ISS) took issue with the supervisory board's refusal to acknowledge any need to improve its remuneration system, despite shareholder discontent. […] About 20 percent of SAP shares are held by co-founders or their family and 56 percent by institutional investors."

› Handelsblatt reports that **Shareholder Revolts Sweep Across Germany**: https://global.handelsblatt.com/finance/shareholder-revolts-sweep-across-germany-758814. "At the end of April, Munich Re only narrowly avoided an embarrassing defeat at its annual shareholders' meeting. The world's largest re-insurance firm wanted the authorization to raise extra capital by diluting shares if and when needed in the coming years. In the end it scraped above the 75-percent threshold of investors needed to back the controversial capital-raising plans. And even that grudging blessing came only after executives scaled back their plans, pledging to increase its capital by a third of their existing share base at most in coming years. Previously they'd asked for a cushion of almost 50 percent."

› The Financial Times reports that **Investors criticise Deutsche Bank at fiery meeting**: https://www.ft.com/content/65c7f65e-3b9a-11e7-ac89-b01cc67cfeec. "Deutsche Bank came in for stinging criticism from shareholders angry at a decade of painful share price falls, lacklustre returns and high misconduct charges at its annual meeting in Frankfurt on Thursday. Germany's biggest bank endured a turbulent 2016, culminating in a dramatic sell-off in its shares in September, as investors fretted over whether Deutsche had sufficient capital to meet a penalty demanded by US authorities for its alleged mis-selling of mortgage-backed securities in the run-up to the 2007 financial crisis. Deutsche has since settled with the US for far less than feared, and in April raised €8bn in capital in an attempt to lay to rest fears over its financial stability. But at the bank's annual meeting, shareholders expressed a litany of frustrations with its performance. […] But despite their criticism, shareholders backed all the motions that Deutsche had put on the agenda, and rejected a request from a shareholder for three special audits."

Ireland

- The Irish Times reports that **Irish corporate boards stretch the meaning of 'independent'**: http://www.irishtimes.com/business/work/irish-corporate-boards-stretch-the-meaning-of-independent-1.3071426. "There was much surprise in corporate Ireland last week when Independent News & Media reclassified two of its supposedly 'independent' directors as 'non-independent'. This came following inquiries from this newspaper. The corporate governance codes to which listed companies must adhere are very specific on the circumstances that might compromise a non-executive director's independence. These include time served; having worked for the company; or links to it or to shareholders – the grounds that forced INM to reclassify. INM isn't exactly an outlier, however. A close examination of the boards of other Iseq-listed companies reveals many take the definition of 'independent' to the edge of what seems reasonable when designating directors. But here's the rub: even if a director doesn't meet the definition of independence in the codes, they are still considered independent if the board says so. That's the Orwellian beauty of the 'comply or explain' principle of the governance codes. Even when you're not following the code, you're meeting the code. As long as you say why with a straight face, as perfunctory as you like. When it comes to director independence, company boards get to mark their own homework. But shareholders don't seem to give a hoot."

Norway

- The Financial Times reports that **Norway's oil fund in need of a governance upgrade**: https://www.ft.com/content/64dfdd8e-3a3b-11e7-821a-6027b8a20f23. "Instead, the potential Achilles heel of the gigantic Norwegian investor is governance. 'There is a reason you don't find many sovereign wealth funds in democracies. The governance is a real challenge,' says a senior Norwegian official. Currently, the oil fund is managed by Norges Bank Investment Management, which sits inside the country's central bank and is overseen by the bank's board, which also deals with monetary policy. Asset allocation policy is mostly set by a group of 16 bureaucrats inside the finance ministry and approved by politicians with little financial experience. That leaves one of the world's largest asset managers – it owns an average of 1.3 per cent of every listed company globally – under the supervision of a small group of Norwegians, almost none of whom have worked as investors. The results have not been reassuring. Recently the fund has struggled to deliver the 4 per cent annual return expected of it, and its performance lags behind Singapore's Temasek and the Canada Pension Plan Investment Board."

Italy

- The Financial Times reports that **Hope for Italy with Monte dei Paschi rescue deal now close**: https://www.ft.com/content/d31026a8-3eda-11e7-9d56-25f963e998b2. "There is also a looming fight over how much senior managers will be allowed to earn. Last year, bizarrely, the chief executive of MPS – lossmaking and with total assets of barely €150bn – was awarded a salary of nearly €1.9m, far more than the heads of rival banks 10 times the size. Bonuses come on top. Under the terms of EU state aid rules, the total pay of MPS's senior executives would not be allowed to exceed either 10 times the average of staff in that institution, or 15 times the national average. The latter would imply a cap of about €450,000."
- Reuters reports that **Telecom Italia keeps Recchi in place as executive chairman**:

http://www.reuters.com/article/telecomitalia-chairman-idUSL8N1I7429. "Telecom Italia on Friday confirmed Giuseppe Recchi as executive chairman in a sign that top shareholder Vivendi was treading a cautious line ahead of an EU ruling over whether it can control Italy's biggest phone group. The appointment came a day after the French media group tightened its grip on Telecom Italia by appointing 10 directors out of 15 to the board of the Italian company. Vivendi, which owns 24 percent of Telecom Italia, had put its CEO Arnaud de Puyfontaine top of its list of candidates for the Italian firm's board, which in Italy usually indicates the proposed chairman."

Spain

› ECGS has announced that it will **incorporate Spanish proxy advisor to the partnership, Corporance**: https://frontisgovernanceblog.wordpress.com/2017/05/14/ecgs-incorporates-spanish-proxy-advisor-to-the-partnership-corporance/. "The international network of local independent proxy advisors, Expert Corporate Governance Service (ECGS) has complemented its footprint in Europe by entering into a partnership agreement with Spain's CORPORANCE Asesores de Voto, the first local proxy advisor and provider of advisory services to Spanish institutional investors. It will also cover the Portuguese market. With this agreement CORPORANCE joins the partnership of local European leaders in this field such as Proxinvest (France), Ethos Foundation (Switzerland), DSW (Germany), Frontis Governance (Italy), VIRV Solutions (Netherlands) and Manifest (UK). Its incorporation completes the map of the main European partners and, like them, will provide local expert independent advice on corporate governance matters of companies listed in Spain and Portugal." See here for the ECGS partners: http://www.ecgs.net/partners.

United States

› The New York Times reports that **Dubious Corporate Practices Get a Rubber Stamp From Big Investors**: https://www.nytimes.com/2017/05/19/business/gretchen-morgenson-arconic-activist-investors.html. "Another problem: The structure of Arconic's board – and Alcoa's before it – is investor-unfriendly. It is what's known as a classified board, in which directors' terms are staggered, protecting them from being voted out en masse. Nevertheless, two of the company's largest shareholders, BlackRock and Vanguard, voted their clients' shares in support of Alcoa's management and board last year. And they rejected a proposal urging the company install an independent chairperson. At the time, Klaus Kleinfeld, Alcoa's longtime chief executive, was also its chairman. Had BlackRock and Vanguard favored the proposal for an independent chairperson, Mr. Kleinfeld might have been subject to greater oversight. This may have been a good idea, given the bizarre sequence of events that forced Mr. Kleinfeld from his posts at Arconic last month. […] This is far from unusual. According to Proxy Insight, a data analytics firm that tracks shareholder votes, BlackRock voted in favor of 95.4 percent of management-sponsored proposals last year, while Vanguard sided 94.7 percent of the time with management. Such support suggests that today's corporations are models of perfection, requiring little change in the way they operate and serve shareholders. It seems unlikely that clients of BlackRock and Vanguard agree with that view."

› The Street reports that **Executive Pay Rejection Shows ConocoPhillips Still Has Work to Do**: https://www.thestreet.com/story/14139333/1/executive-pay-rejection-shows-conocophillips-still-has-work-to-do.html. "A majority of ConocoPhillips (COP) investors voted against an executive compensation plan outlined by the company in a virtual shareholders' meeting Tuesday – a move that could put pressure on ConocoPhillips to execute on its broader initiatives in the coming months, including further asset sales. Preliminary vote results show that 68% of the Houston oil and natural gas producer's present shareholders voted against or abstained in a nonbinding say-on-pay vote over the company's 2016 compensation package."

› Bloomberg reports about **John Malone's Formula for Successful Shareholder Meetings: 15 Minutes or Less**: https://www.bloomberg.com/news/articles/2017-05-23/billionaire-malone-packs-four-shareholder-meetings-in-one-hour. "It's the corporate-governance equivalent of speed dating. Within just one hour on Wednesday, the gavel will fall at four shareholder meetings in the same room at the same place: the headquarters of Major League Baseball's Atlanta Braves. It's possible because a single person controls all four companies, as well as the team: billionaire media-and-sports mogul John Malone, whose empire includes

Sirius XM satellite radio, QVC shopping, Formula One racing, the TripAdvisor website and stakes in cable operator Charter Communications Inc. and the company that owns the Starz network. These 15-minute shareholder meetings show how corporate democracy in America can be pro-forma. It's especially true at companies such as Malone's where multiple classes of stock give a single owner the bulk of the votes. Liberty Media Corp. and three other similarly named Malone-controlled businesses are holding gatherings Wednesday."

Canada

› The Financial Post reports that **Bombardier chairman re-elected to the board amid public uproar over pay, steps back from executive role**: http://business.financialpost.com/news/transportation/bombardier-executive-chairman-steps-down-after-shareholder-outcry-over-pay-hikes. "Despite public outcry from major institutional shareholders and protests in Quebec, Bombardier Inc. has approved its executive compensation plan and re-elected Pierre Beaudoin, who relinquished his role as executive but will remain chairman of the board. Beaudoin, a member of the family which maintains control of the company through multiple voting shares, was re-elected with 92.32 per cent of the vote at Thursday's annual general meeting. […] Beaudoin, whose leadership was criticized by several pension funds earlier this week, will step down as executive chairman effective June 30, the Montreal-based company said in a statement, but will continue to serve as non-executive chairman."

Australia

› The Financial Times reports that **Australian pension funds push for more female company directors**: https://www.ft.com/content/fa3914c8-41b0-11e7-9d56-25f963e998b2. "Australia's largest pension fund has begun voting against the re-election of directors at companies without any female representation on their boards, as part of a push by the A$2.2tn superannuation industry to promote gender diversity. This month AustralianSuper, which manages A$110bn (US$82bn) in assets and has 2.2m members, voted against the re-election of Martin Rowley, chairman of Galaxy Resources, at the annual meeting of the Perth-based lithium miner. In April the fund voted its shares against re-election of Marcelino Fernandez Verdes as chairman of the A$13bn construction company, Cimic Group. Both men were re-elected to their posts in spite of the protest vote by AustralianSuper but the fund has vowed to continue advocating for change. Last year the fund wrote to 17 ASX-listed companies with all-male directors warning they could face similar action unless they appointed a woman to the board."

New Zealand

› New Zealand Exchange **has published the final NZX Corporate Governance Code**: https://www.nzx.com/regulators/NZXR/announcements/300888. "NZX today published its final NZX Corporate Governance Code. This is the first substantial update to the NZX Code since 2003 and represents a significant step forward for corporate governance reporting requirements in New Zealand. The NZX Code covers eight principles that reflect internationally accepted corporate governance practices, which are intended to protect the interests of and provide long term value to shareholders while also seeking to reduce the cost of capital for issuers. Each principle contains specific recommendations and explanatory commentary that NZX listed issuers are encouraged to adopt. […] The updated NZX Code will take effect from 1 October 2017 so that it must be reported against for reporting periods ending 31 December 2017 and beyond. Issuers are encouraged to adopt the recommendations on a voluntary basis earlier if they wish." See here for the full document: https://nzx.com/files/static/cms-documents//NZX_Corporate_Governance_Code_2017.pdf.

Japan

› The Nikkei Asian Review reports that **Japan asks big investors to show voting records**: http://asia.nikkei.com/Markets/Tokyo-Market/Japan-asks-big-investors-to-show-voting-records. "Japan is calling on institutional investors to disclose fully detailed records of their votes at corporate shareholders meetings, hoping greater transparency will both safeguard clients' interests and show companies how to improve. The Financial Services Agency on Monday released the revised version of Japan's Stewardship Code, a set of principles for responsible institutional investors that will take effect in June, when many companies hold annual shareholders meetings. Currently, institutions such as asset management firms, pension funds, insurers and trust banks need only to 'aggregate the voting records' when disclosing them publicly. Now, the new text reads, they 'should disclose voting records for each investee company on an individual agenda item basis.' For meetings held in June, records should be out by the end of November. This is the first revision to the code, which was introduced in 2014 and is to be updated every three years. Compliance is not mandatory. But signatories to the code opting out of particular provisions must explain their reasoning for doing so."

- The Financial Times reports that **Secom breaks ranks to highlight reform failures of Japan Inc**: https://www.ft.com/content/3ad40558-3fac-11e7-9d56-25f963e998b2. "Last Friday a link to a one-page chart appeared on an obscure corner of the corporate website of Secom, Japan's largest security services company. Depending on your stance on corporate Japan, it was either encouraging, depressing or terrifying. The chart laid out, in almost provocative simplicity, how Secom's corporate pension fund had voted on 9,034 agenda items tabled at the shareholder meetings of the 2,269 companies whose stock it holds. The breakdown of voting, though intriguing, is not the point: the shock is that it exists at all. Secom has the country's only non-financial corporate pension fund to have signed up to the 2014 Stewardship Code, and as such to a deeper level of transparency. The failure to sign by the likes of Toyota, Panasonic and other industrial titans becomes even more glaring."

- The Tokyo Stock Exchange has published the **TSE-Listed Companies White Paper on Corporate Governance 2017**: http://www.jpx.co.jp/english/news/1020/20170518-01.html. "TSE publishes the White Paper in every other year, by gathering data in the Corporate Governance Reports submitted by all the TSE-listed domestic companies. The TSE-Listed Companies White Paper on Corporate Governance 2017 incorporates new items such as the situation of the Company with Supervisory Committee that was introduced under the revised Companies Act in May 2015 and the status of response to the Code that was first applied from that year." See here for the full document: http://www.jpx.co.jp/english/news/1020/b5b4pj000001nivy-att/2017.pdf.

If you have any comments or questions please do not hesitate to contact me.

Kind regards,

Daniele Vitale
Georgeson
Corporate Governance Manager > Corporate Advisory
daniele.vitale@georgeson.com
T +44 (0)20 7019 7034 **M** +44 (0)7747 697 136 **F** +44 (0)870 702 0158
Moor House, 120 London Wall, London EC2Y 5ET, United Kingdom
www.georgeson.com