

EuroInvestors' Comments on the UK FRC Stewardship Code

The European Federation of Investors (EFI -EuroInvestors.org), - is known in representing mainly **private investors and savers**, including fund investors who are interested in clear and transparent standards, therefore we would like to express our thanks to ISC/FRC which succeeded in developing impressive **standards for investors** not only for the UK, but hopefully EU-wide or even global.

The financial crisis demands actions to be taken from all parties involved- not only by the EU-Commission, but also from investors all over the world.

It is time for the institutional investors to go ahead by not only asking for transparency from the companies in which they hold shares, but by showing towards their clients- the fund holders- that they follow the same standards of disclosure.

The Stewardship Code presented by ISC is currently a U.K standard only- nevertheless in the view of EuroInvestors this Code should also be applicable to institutional investors in all other EU-countries as our president Jella Benner-Heinacher recently suggested it to the EU Commission at an informal meeting on Shareholder Engagement in Brussels- no matter if they invest in a UK based company or not. This could be done either by implementing a European Code or an EU recommendation. If this will not work then the EU should think about further reaching legislative acts.

In fact, some of the Stewardship Code recommendations are already legally binding in certain EU member states. In France for example, the Financial Security Law (LSF) of 2003 and the General Regulation of the French securities regulator, Autorité des Marchés Financiers (AMF) require that asset management companies exercise the voting rights attached to shares held by the funds they manage and require that, should they not exercise such right, they explain their decision ("comply or explain"). The AMF General Regulation goes further, requiring asset managers to publish an up-to-date "Voting Policy" stating the conditions under which they intend to exercise the voting rights attached to the shares held by the funds they manage. These regulations further require asset management companies to report on the conditions under which they exercised their voting rights.

EuroInvestors therefore strongly supports the 7 principles of this Stewardship Code and the "comply or explain" concept as it brings the idea of a **responsible acting investor** forward.

Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities

For example, DSW, our German member and number one investors association in Germany, takes a close look at the situation in Germany, where, due to the state pension system, mutual funds traditionally play a strong role as institutional investors. Although there is a German Code called 'BVI-Wohlverhaltensregeln'- we see a lack in clarity regarding precise stewardship responsibilities for funds. And the situation becomes even clearer when taking a look at the websites of these German funds. Except for Allianz Global Investors you will find almost a non-disclosure on such important issues as their Voting Policy, the exercise of their votes, guidelines on potential conflicts of interest, their

escalation strategy and their internal procedures for monitoring. This existing ‘black box’ calls for an improvement in their Best Practice and a higher degree of transparency on the side of the funds.

Therefore EuroInvestors is convinced that the application of this very important standard EU-wide will lead these investors to have a closer look at their own monitoring system. Also we are convinced that the demand for an increased transparency by the Code will finally lead asset managers to a review of their internal monitoring and Corporate Governance procedures and will end in major improvements of their systems. There is a strong need from the view of their clients, the fund holders to find out if and how stewardship is integrated within their wider investment process.

Principle 2: Institutional Investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

EuroInvestors strongly advocates the development of a fund policy on managing conflicts of interest and its public disclosure. This will help the beneficiaries to build up trust in the funds they invest in.

Principle 3: Institutional Investors should monitor their investee companies

The monitoring of their investee companies will lead in the view of EuroInvestors to a higher degree of effectiveness in the board and committee work. At the same time the monitoring will clearly show whether boards have enough independent directors to provide an adequate oversight on the audit trail. EuroInvestors therefore strongly supports this very important principle for institutional investors.

Principle 4: Institutional Investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value

EuroInvestors strongly supports the development of an escalation strategy and its disclosure by the institutional investors.

This will hopefully lead to a higher degree of commitment by the investor since there is a need to take a closer look at the specific companies and their agendas in order to identify debatable issues such as ‘rewards for failure’ (to give an example). This requires a qualified research and a strong Corporate Governance policy.

For example, in Germany, DSW itself has developed its own escalation strategy towards the publicly listed German companies which is being published at www.dsw-info.de

Principle 5: Institutional investors should be willing to act collectively with other investors where appropriate

EuroInvestors as a federation of associations of retail investors has a long tradition in collaborating with other shareholder groups and finds it very useful in order to enforce or even emphasise its points of criticism towards the companies. It is a good way to push things forward as long as they are done with the necessary degree of transparency. One recent example in Germany is a common action of our member DSW together with

Hermes and other funds in order to put the ‘say on pay’ issue on the agendas of German companies.

Nevertheless investors should have a clear policy on the limits of their collective actions. Example: If certain short term oriented investors try to force the company to pay out dividends the company did not earn in order to damage the company and its shareholders there should be a clear policy in place that responsible investors do not follow or support such a ‘greenmail policy’.

Principle 6: Institutional investors should have a clear policy on voting and disclosure of voting activity

As mentioned above, this is already a legal requirement in France for example.

Principle 7: Institutional Investors should report periodically on their stewardship and voting activities

EuroInvestors strongly supports these 2 principles as these are the core principles of this Stewardship Code.

We would like to give you a short insight in our German member’s experiences regarding this issue:

DSW as a shareholder association already discloses its voting policy towards its members. The same applies to the information on how the votes at more than 650 general meetings were exercised.

Furthermore it is good practice in Germany to tell the company in advance how the shareholder representative is going to vote for its members. Sometimes it is necessary to set it under the precondition that further information at the general meeting could change the situation- then it will be up to the DSW representative to decide on the finally exercised vote.

From our experience of the last 10 years it is adequate to **simplify the procedure of disclosure and keep it as efficient as possible.**

DSW therefore discloses only the votes with ‘NO’ or ‘ABSTAIN’ on management resolutions **after the general meeting.** The same is true for counter motions or amendments to the agenda taken by DSW.

The disclosure of the voting policy and its yearly review will be published **before the general meeting season** starts. This is also true for the DSW escalation strategy.

Finally EuroInvestors would like to underline that it strongly advocates the proposal of the Code to obtain an independent audit opinion on engagement and voting processes for those institutional investors who sign up this code.