

October 1, 2018

Letter on AGM Agendas with Many “Against” Votes from Shareholders (abridged translation)

IICEF and the five participants of its collective engagement program (Pension Fund Association, Sumitomo Mitsui Asset Management, Sumitomo Mitsui Trust Asset Management, Mitsubishi UFJ Trust Bank, and Resona Bank) have jointly started sending letters to listed companies that saw a considerable number of “against” votes to their proposals of the top management people appointments as the board members, at their annual (general) shareholders’ meetings (AGMs) in May and June 2018. In the letters we (IICEF and the participating institutional investors mentioned above) are asking for clear explanations of outcomes of the companies’ analyses about the primary reasons behind the opposing votes from shareholders, and their views on possible additional dialogues with the shareholders regarding the matter.

1. Target companies

In recent years, with more proactive and stricter proxy voting stances by investors and shareholders in and outside of Japan, there are an increasing number of cases where quite a few votes are cast against company proposal bills at AGMs. According to Supplementary Principle 1.1.1 of Japan’s Corporate Governance Code, “When the board recognizes that a considerable number of votes have been cast against a proposal by the company and the proposal was approved, it should analyze the reasons behind opposing votes and why many shareholders opposed, and should consider the need for shareholder dialogue and other measures.” The Code does not necessarily require the companies to make related disclosures and presentations to the shareholders. As passive investors, however, we are very interested in how the companies have taken the outcomes of the companies’ analyses of the relevant opposing votes, and in what kind of considerations they have made regarding the action plans (if any).

This time, we will focus on the cases where a considerable number of votes have been cast against company proposals for top management people appointments as the board members. In these cases, apparently some shareholders have found concerns over the overall management quality, business performances, etc., and therefore we should try to learn more about the management teams’ analyses of the reasons behind the opposing votes as well as about their considerations of the action

plans regarding dialogues with shareholders. We have started sending letters to multiple target companies (basically to the CEOs of them), to ask about the points mentioned above. When selecting the target companies, we refer to overseas practices regarding “a considerable number of votes,” such as of the UK Corporate Governance Code. For now, we do not plan to disclose specific target company names.

2. Key messages

The participating institutional investors have spent time to discuss the “against” vote agenda, to come up with the following common views to be addressed in the letters.

(1) Investors’ perspective on many opposing votes for top management appointments

Opposing votes for board member appointments can be cast by various reasons. Especially when they are for top management people, they do not necessarily mean that the voters are worrying about talent, capability, etc., of the relevant individuals. It is often the case that a shareholder would vote against top management board member appointments, when he/she is not happy with the relevant company’s efficient use of capital, corporate governance structure, and other companywide matters. Institutional investors can make similar actions. Many of the major institutional investors disclose their proxy voting guidelines, as well as their past voting actions on individual AGM agendas. We would encourage target company management teams to check the major institutional investors’ websites for those kinds of information.

(2) Request for clear explanations of the management teams’ analyses and action plans

We would like the target companies’ management teams to explain how they have analyzed the reasons behind the opposing votes and what they consider as to dialogues with shareholders. More specifically, our questions to the target companies’ management teams are:

- a) How have the board conducted analyses of the reasons behind many opposing votes for top management appointments? What have been the outcomes of the analyses so far? What does the board now think about the possible dialogues with shareholders regarding the matter?
- b) Have outside directors expressed any thought about the opposing votes and the board’s analyses of the reasons? If so, please let us know the summary.
- c) Based on all these considerations, what does the management team think about the company’s key challenges in its business plans/strategies, corporate governance, efficient use of capital, and so forth? How is the management team going to deal with the challenges?

For the management team to try to answer these questions clearly will significantly help its effective and constructive dialogues with shareholders and investors, in our view.

On a separate note, we will highly appreciate if the management teams would think about making clear and concise disclosures of the matter in the companies' corporate governance reports submitted to the stock exchanges in Japan.

Note: The UK Corporate Governance Code

In the UK Corporate Governance Code (July 2018), the "against" vote related agenda is covered in Chapter 1; Provision 4, as follows:

When 20 per cent or more of votes have been cast against the board recommendation for a resolution, the company should explain, when announcing voting results, what actions it intends to take to consult shareholders in order to understand the reasons behind the result. An update on the views received from shareholders and actions taken should be published no later than six months after the shareholder meeting. The board should then provide a final summary in the annual report and, if applicable, in the explanatory notes to resolutions at the next shareholder meeting, on what impact the feedback has had on the decisions the board has taken and any actions or resolutions now proposed.

We have initiated collective engagement dialogues with multiple companies, with the above-mentioned contents. Suggestions, opinions and inquiries are welcome, from investors who have other engagement agenda ideas, as well as from listed companies' management teams.

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