

Summary of comments by overseas institutional investors on engagement issues

September 23, 2016

This material summarizes the comments received from overseas institutional investors who invest in Japanese equity on “constructive engagement between companies and institutional investors.”

Contents

- | | |
|---|----|
| 1. Governance of institutional investors/conflicts of interest | P3 |
| 2. Disclosure of proxy voting results by individual company basis | P4 |
| 3. Engagement of passive funds | P5 |
| 4. Roles of asset owners | P6 |

1. Governance of institutional investors/conflicts of interest

Points

- A solid governance structure including independent oversight and conflicts of interest management is important for effective stewardship activities.
- There are comments to urge establishing a clear proxy voting standard, or independent committees for proxy voting judgement. Some introduce the case where an independent board is established when the asset manager has a parent company.

Comments

- ICGN's Stewardship Principles begin with internal investor governance as the first step towards an effective stewardship capability. The Principles certainly identify conflicts of interest as one of the key investor governance considerations; but, the Principles extend into other aspects of investor governance which include time horizons, independent oversight, ethics, capacity and remuneration. (ICGN, International institutional investor organization)
- There needs to be more discussion on this in due course, including the issue of conflict of interest and how this affects responsible investment. (ACGA, International institutional investor association)
- Under the Dutch Corporate Governance Code and Stewardship Code, we are required to clearly disclose what could be conflicts of interest cases and how to properly deal with the cases/situations on an annual basis. It is indeed an excellent idea for Japanese asset managers to establish an independent committee to deal with any issues that are deemed to fall into the 'conflict of interests' category. (APG Asset Management, The Netherlands)
- Most of the domestic assets are held by asset managers owned by powerful banks and insurance companies, whose business interests are not necessarily aligned with those of the underlying assets. The Council could take a close look at the robustness of a "Chinese Wall," which could be extremely weak. (Legal & General Investment Management, UK)
- It would help to avoid conflict if the asset managers clarify quantitative standards and guidelines to assess the governance of investee companies and exercise their voting power and set up an independent committee to make actual voting decisions. (Oasis Management, HK)
- The funds associated with a bank have their own independent board that should work for the fund, not the bank. The funds also have to report how much of their business they do with their bank. (AP4, Sweden)
- Create an independent committee to objectively review contentious votes. Be transparent by disclosing the decisions made by this committee. (Large North American fund)
- When conflicts of interest occur, the sub-group of the Investment Management Group will resolve the conflict of interest. (UK asset manager)

2. Disclosure of proxy voting results by individual company basis

Points

- The transparency of proxy voting results must be ensured for fulfilling accountability to beneficiaries.
- There are some comments saying that the disclosure of aggregated proxy voting results is insufficient.
- Many of the responding investors disclose proxy voting results by individual company basis. Other investors report such results to their clients.

Comments

- As a general rule, an investor's voting records should mainly show how the investor voted on an individual company basis. Ideally, the voting records should also summarize the reasons for not voting in favor of a management-proposed issue. (ICGN, International institutional investor organization)
- I don't think that disclosure of aggregated statistics provides accountability or helps manage conflicts. It just indicates activity at the highest level; it does not facilitate others to hold the manager to account for delivering good decision-making on behalf of clients. We release our voting decisions 3 months in arrears, which we believe still allows us to be held to account. (Aberdeen Asset Management, UK)
- The example for disclosure of voting records by Japanese institutional investors shows that most companies disclose voting records at an aggregated level. It would be fair to say that such information will be of limited value to stakeholders, including investors. (Norges Bank, Norway)
- The Japanese institutional investors should disclose their own proxy voting guidelines and also disclose proxy voting records as much as possible upon request from their investors. (Oasis Management, HK)
- We regularly provide clients with proxy voting records. In keeping with the firm's focus first and foremost on existing clients, those records, and holding details, are not publicly disclosed. (UK asset manager)
- BCIMC discloses publicly its proxy voting records at the company-level on a live-basis ahead of AGMs. (British Columbia Investment, Canada)
- Transparency is the best solution to addressing any concerns about conflicts of interest. To that end, voting disclosure needs to be as transparent as possible and we consider that the example provided in the consultation does not meet the level of transparency needed. (Large North American fund)
- Asset managers should eventually disclose what their voting policies are and how they voted, agenda by agenda. APG discloses fully and publicly through its website. (APG Asset Management, The Netherlands)

3. Engagement of passive funds

Points

- Engagement for passive funds is important since they cannot sell shares and need to have mid-to-long term increase of corporate value.
- Engagement with investee companies in the passive funds needs a screening process to choose companies with significant issues and large market caps.
- Some point out that passive funds in Japan may not have been active in engagement.

Comments

- Passive funds, unlike active funds, cannot sell shares even if they think the performance of the issuers are not good. Therefore passive funds need to improve the mid-to long-term corporate value of investee companies through engagement. However, it has been pointed out that Japanese passive funds have not been active in engagement until now. (Oasis Management, HK)
- Investors should develop methods or risk-based tools to identify and prioritize portfolio companies for further analysis and engagement, which can include environmental, social and governance issues. (ICGN, International institutional investor organization)
- Starting at the largest companies by market cap and running down that list should help identify large companies with issues where client investments are such that passive investors should intrude themselves. The level of activity will be dictated by the level of resources in place.(Aberdeen Asset Management, UK)
- We screen the portfolio twice a year to get an overview of the companies or sectors that have problems or a situation to handle. We also get weekly updates if there are some issues occurring. Then we decide, case by case, if we are going to engage or not. It depends on the dignity of the issue, on the size in our portfolio or how big we are as the owner in the company. (AP4, Sweden)
- Subject companies for engagement should be based on the severity of the governance issues, history/past practice of the boards, amount of the ownership in the company, etc. (Large North American fund)

4. Roles of asset owners

Points

- Asset owners are responsible to **the monitor stewardship activities of asset managers.**
- Some comments say that asset owners should include provisions on stewardship activities in the contract with asset managers, or **instruct asset managers on their engagement policy and follow up the results of stewardship activities regularly.**
- Corporate pension funds should **supervise and request reports on asset managers' activities.**

Comments

- Japanese pension funds should provide active oversight over the stewardship process, and report to both trustees and beneficiaries on the stewardship activities by their asset managers. Japanese asset owners should include stewardship-related language in the terms of investment management agreements between asset owners and asset managers. (ICGN, International institutional investor organization)
- What Japanese asset owners should do is to clearly instruct the asset managers on how to act, and the asset owner has to regularly follow up with the asset manager. (AP4, Sweden)
- Asset owners should regularly monitor and review how the selected managers undertake/deliver the promised responsibilities and make progress over time. (APG Asset Management, The Netherlands)
- We support GPIF's efforts to facilitate its asset managers' engagement in dialogue with investee companies. (Oasis Management, HK)
- It may be worth consideration to make it a rule for asset managers that manage assets of pension funds to seek comments and instructions from their pension fund clients concerning their dialogue with investee companies and their voting guidelines. Through such discussion with asset managers, pension funds would be better educated about the need for dialogue with investee companies. (Oasis Management, HK)
- Pension funds should not worry about the lack of resources to carry out stewardship. Their role is to hold the fund managers to account for the delivery of stewardship activities. (Aberdeen Asset Management, UK)