



# Voting activity report

2019

## ■ ONE STEP FORWARD, TWO STEPS BACK

2019 marked the pursuit of ambitious commitments by the regulatory authorities - particularly European ones - with regard to sustainable and responsible investments and the fiduciary responsibility of investors with regard to environmental, social and governance (ESG) issues, in particular with regard to climate change and energy transition.

There is a strong consensus in acknowledging the leadership taken by Europe in this area, notably the European Commission's Action Plan for More Sustainable Finance of Mr Juncker; ambitions clearly taken up by the Commission henceforth of Mrs Von der Leyen, notably the Green Deal.

With regard to shareholder responsibility, the revision of the Shareholders' Rights Directive, voted in May 2017 with transposition into the laws of each member of the Union by June 2019<sup>1</sup>, is also an important step in terms of responsible finance. Although it has not yet been finally transposed and voted on in most Member States, it has encouraged us to review both our voting and other closely linked internal policies and programmes.

Our voting policy within DPAM has therefore been amended to reflect the twofold objective of the Directive - long-term shareholder engagement and transparency - and its new requirements, particularly with regard to conflicts of interest and transactions with third parties and remuneration of executive functions.

As mentioned, a major objective of the Directive is the engagement associated with shareholder responsibility. Here, we have also reviewed our engagement programme as the cornerstone of the impact we create as a responsible investor. It also affects our research and investment processes and methodologies more generally. We therefore felt it was important to review and integrate our sustainable and responsible investments policy as the third element of our internal regulations on our commitment to sustainable finance. For completeness and transparency, it was also important to review our policy on controversial activities to provide a complete picture of our sustainable commitments, the things we exclude and the points of attention defined for controversial activities not directly excluded. Below you will find a brief description of these different sections which you can consult in their entirety on our website: <https://www.dpamfunds.com/responsible-investment.html>

1. Our **Voting Policy** (available in English [here](#)): The voting policy adopted by DPAM seeks to uphold the values and principles of corporate governance that DPAM intends to defend and promote with the companies in which it invests.

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<sup>1</sup> The revised Directive was to be transposed by the States in June 2019 and by 2020 for issues of shareholder identification (1) and transmission of information and voting (2).

2. Our **Controversial Activities Policy** (available in English [here](#)): As a responsible partner for more sustainable finance and a transition to a low-carbon economy, DPAM describes its position on controversial investment issues. In the event that a company - in which we invest or which we intend to buy - becomes involved in a controversial activity as mentioned in our controversial activities policy, we will engage in a dialogue with the company's management teams. Involvement may be indirect, such as possible interaction with the defence and arms sector for IT or technological companies developing security software.
3. Our **Engagement Policy** (available in English [here](#)): Our vision of a responsible company is based on three pillars:
  - a. Asking relevant and critical questions about the consequences of our economic activities (controversial activities policy);
  - b. Being a shareholder that engages in constructive dialogue with the companies and ensuring that shareholder rights can be fully exercised (voting policy); and
  - c. Being committed to sustainable finance and long-term objectives (commitment and investment).

To this end, DPAM is engaged in dialogue with the various stakeholders at the heart of its investment process and approach. The engagement programme describes the different channels used by DPAM to engage with companies on the one hand and to increase its net positive impact on the Company on the other.

4. Finally our **Sustainable and Responsible Investments Policy** (available in English [here](#)): this policy describes the approach developed by DPAM to integrate environmental, social and governance (ESG) challenges from a risk (responsibilities of economic player) and opportunity perspective. The approach is based on pragmatism and dialogue and is intended to be holistic and comprehensive in the sense that all economic sectors are included without specific exclusion of sectors that might seem unsustainable by definition. No sustainable dimension dominates in the sense that environmental sustainability must not take precedence over the social dimension or governance (holistic approach). Through a dynamic process and a critical and constructive approach, DPAM can share its own definition of environmental, social and governance (ESG) factors and how they are integrated into the entire investment process, from the desire to integrate factors to the engagement perspective.

Europe is therefore showing its determination to be a leader in green and responsible finance and is impacting economic players like DPAM.

Although Brexit has started, the fact remains that in terms of corporate governance and climate commitment, UK regulators are leading the way. On the one hand, the Bank of England was the first central bank to declare climate change as a material financial risk to be included in their responsibilities and imposed climate stress tests on the financial sector - insurance companies and banks. In addition, the latest UK governance code puts the integration of systematic risks such as ESG factors, the cooperation between shareholders and stakeholders and the beneficiaries' needs and concerns at the heart of good governance practices.

**In contrast**, on the other side of the Atlantic, **the United States is lagging behind** in terms of environmental, social and governance regulations. The ambitions of the European Union are

currently not aligned with similar initiatives by the FED, the SEC or the White House. Moreover, in terms of governance and in particular the democratic expression of shareholders, **the SEC has proposed new rules** that would go against minority shareholders and hinder the dialogue engaged with companies for the adoption of best ESG practices. Firstly, the SEC proposal raises the level of shareholder ownership required to file a resolution. Secondly, it also raises the required level of votes in favour of a proposal that would be submitted once again for shareholder approval. Lastly, it requires voting agencies to give companies the opportunity to review and comment on their recommendations before they are published to shareholders. Consultation with companies can be a positive step and allow mutual learning for both parties. However, such consultation must not compromise the independence of expert opinions and analyses. Nor should it encroach on the time given to the analysis of recommendations by the shareholders before voting deadlines, which is already significantly reduced during the shareholder meetings season. The latest SEC proposal does not seem to be moving in the right direction and does not seem to be a good practice to follow in terms of sound corporate governance and defending minority shareholders. Moreover, it has not received the support of all its commissioners. According to Commissioner Allison Herren Lee, who did not support the proposal, “it would at best only serve to increase costs and reduce quality and at worst make the term shareholder unbearable for investors”.

Whatever the outcome of the American debate, **DPAM will continue to defend the rights of minority shareholders** which remains a basic principle of sound governance. It is also on the basis of this principle that DPAM has reiterated its defence of the principle of one share, one vote, one dividend despite the latest regulatory developments, particularly in Belgium. The main stumbling block in the revision of the Belgian Company Code was the introduction of loyalty share classes for holding shares for a minimum period of two years. From now on, the Belgian Company Code provides the possibility of double voting rights for companies - excluding SICAV investment funds and management companies. This has been in force since 1 January. Many consider multiple-voting loyalty units to be an infringement of the “**one share, one vote, one dividend**” principle. A principle that we continue to defend in our revised voting policy in order to incorporate the latest requirements of the Shareholders’ Rights Directive.

## ■ TAKING STOCK OF 2019: MEETINGS INCREASINGLY IN SHAREHOLDERS' SIGHTS

In general - and in particular in the United States - the number of votes against at shareholder meetings has been increasing in recent years. For example, US companies recorded their highest rate of votes against the election/re-election of board members in the last decade. Today, the number of directors elected with less than 80% of the votes on their board of directors is growing. There are several possible explanations for this: on the one hand, large institutions are adopting stricter voting policies, particularly with regard to the maximum size of boards of directors. On the other hand, these policies promote greater gender diversity and lead to a significant renewal of the board. Finally, there seems to be a fairly strong correlation between the level of opposition to “*say on pay*” and the election of board members.

The *say on pay* issue also recorded its highest rate of negative votes observed in the United States since the introduction of the *say on pay* principle in 2011. Once again, there are several possible explanations for this trend: the more pronounced expression of index investors who can no longer vote with their feet and are increasingly accountable for their support of good governance best practices (1); increasingly sophisticated models for assessing the remuneration of executive functions, such as the use of the Economic Value Added (EVA) methodology, for example, which lead to their rejection (2) and lastly, problematic remuneration practices, which are generally a sign of dysfunction in the control functions and real independence of the board of directors (3).

Environmental, social and governance (ESG) issues remain confined to the area of resolutions submitted by shareholders. These declined in the US in 2019, and the amendments proposed by the SEC (see above) leave little hope for a possible resurgence of interest. However, to remain positive, they are increasingly supported by shareholders (an average of 32.5% in favour), in particular, environmental and social resolutions. Climate change remains a key issue for shareholders, also in the United States. On the social front, companies must be more accountable for the link between profit and purpose. The issues of lobbying and financial support to political parties in general were also prominent during the season.

Giving an overall picture of the AGM season in Europe remains a difficult exercise given the variety of governance codes and specific case studies. There were several common topics with what seen in the United States during the proxy season, notably the current topics or the ESG concerns at the shareholders meetings. However, there is still no harmonised and homogenous corporate governance in Europe.

First, on the issue of support for the election of board directors. The independency level in the board of directors has clearly improved globally in Europe. An interesting case and evidence of this progress is the Italian case study with the system of the list of proposed directors by the shareholders. We already mentioned it in our previous reports: a list of proposed directors by the minority shareholders was still very seldom three or four years ago. But this becomes more and more common practice and testifies of the willingness from the shareholders to fully endorse their responsibilities.



Then the issue of gender diversity has often been put on the agenda of shareholder meetings, particularly since several countries have adopted quotas that must be respected for the year 2020. Here, the average is around one-third of women on the board of directors, but this conceals national disparities (45% in France versus 25% in Spain).

## ■ 2020: WHAT CAN WE EXPECT?

First of all, the **participation and wait-and-see attitude of shareholders** will continue to **increase** so that the chances of votes against will also be greater. It should be remembered, however, that the abstention option can also be used by shareholders who, increasingly engaged in dialogue with the companies, grant them a certain period of time to comply.

**Recent IPOs**, particularly in the technology and IT sector, **are no exception to the rule** and are also subject to ever more rigorous analysis. The natural tendency of these companies to typically adopt governance models that are unfavourable to non-founding shareholders of the company, in particular by creating share classes, is also subject to increasing criticism and opposition from minority shareholders, keen to defend the fundamental principle of “one share, one vote, one dividend”.

The **issue of remuneration of executive functions** will remain important in 2020. On the one hand for regulatory reasons: as a reminder, the latest version of the Shareholders’ Rights Directive provides for an annual advisory vote on the remuneration report and a vote on the remuneration policy at least every 4 years. On the other hand, shareholders are increasingly sensitive to the issue and remuneration evaluation models are becoming increasingly refined and relevant. The correlation observed by various studies between the negative vote on the *say on pay* point and the company’s stock market performance demonstrates the importance of the issue.

In fact, the results on *say on pay* votes may be a relevant indicator for investors of the general satisfaction of shareholders. They send a signal about the shareholders’ view of corporate governance, strategy and implementation. Research by broker Morgan Stanley found a significant correlation between *say on pay* vote defeats and the relative underperformance of companies on the stock market in 2017. Repeating the exercise in 2018, they reached the same conclusion for the U.S. companies covered by the investment bank. The observation over a number of years is even more relevant: companies that voted against their *say on pay* for a number of years in a row underperformed for 4 consecutive years, by an average of 17% in relation to the S&P 500. Lack of alignment between the management of a company and its shareholders can indeed justify votes against the executive remuneration plan. The analysis of the votes cast should not be done in isolation without taking other factors into account. However, it may indeed reflect a perception on the shareholders’ part of a lack of commitment to align the interests of the company and its management with the interests of the shareholders.

Among the initiatives of the different stakeholders on the issue of shareholder responsibility and corporate governance, two observations are worth mentioning.

The first is the strengthening of voting guidelines for independent voting recommendation agencies with regard to the review of **the independence of audit functions as a whole**. The analysis of the independence of the audit committee, but also the actual independence of the external auditor, will be more in-depth, especially the verification of the publication of the fees charged and the ratio of fees for audit services versus non-audit services.

Then, as a result of the restrictions on the filing of shareholder resolutions for U.S. companies (latest SEC proposal), the voting recommendation agencies are seeking to be stricter with respect to the company and its consideration of these resolutions. They therefore want a **clear response from the company in the event of weak or lack of support for the resolutions submitted by the shareholders**. They also expect transparency on the engagement activities carried out with shareholders and the adjustments made in response to shareholder requests.

Finally, the French Institute of Directors (IFA) recommends encouraging **directors to respond to climate challenges**. Climate issues must be at the heart of the company's strategy and it is up to directors to ensure this. Risk mapping including climate risks is not sufficient for the IFA. The management should take steps to measure greenhouse gas emissions in order "to adopt a path to reduce their CO2 footprint, to identify the risks and opportunities of this climate transition, to allocate the necessary resources and to integrate the climate dimension into key decisions". Source IFA.

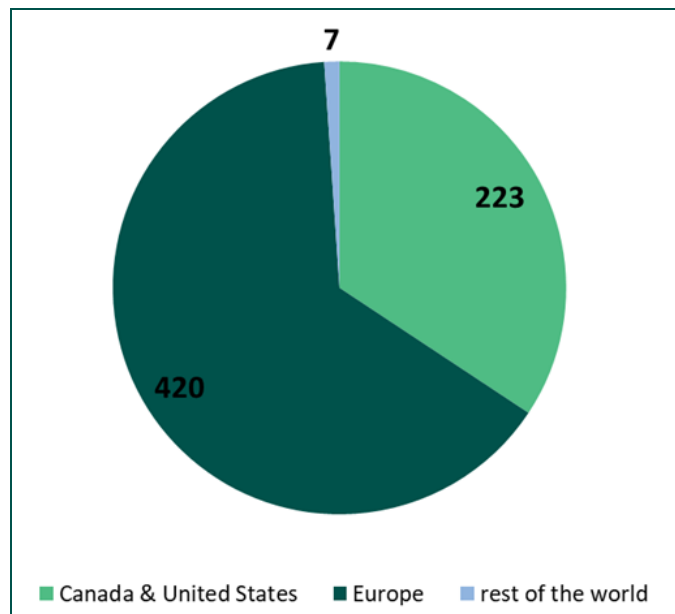
With the advice of our experts on corporate governance issues and in close collaboration with our management and research teams, we will address these issues and new developments by promoting best practices, in the sole interests of shareholders of our portfolio.

## 2019 VOTING ACTIVITY

DPAM has exercised voting rights attached to the shares held in the 52 institutional portfolios (SICAV, collective funds, mandates) and their sub-funds that the management company manages.

Our voting activity remains largely focused on European and North American (US and Canada) markets. In order to reconcile the long-term interests of shareholders and the cost that comes with voting, DPAM participated in general shareholder meetings when it held the minimum amount of shares required to vote, as determined by its voting policy. As a result, we attended a total of 650 general and extraordinary shareholder meetings with a total of 9,266 resolutions, statistics that are up from last year and demonstrate our desire to be a responsible shareholder. We made our voice heard in 571 companies mainly in Europe and North America i.e. nearly 23% growth in our voting activity.

*Geographic breakdown of the participations in general shareholder meetings*

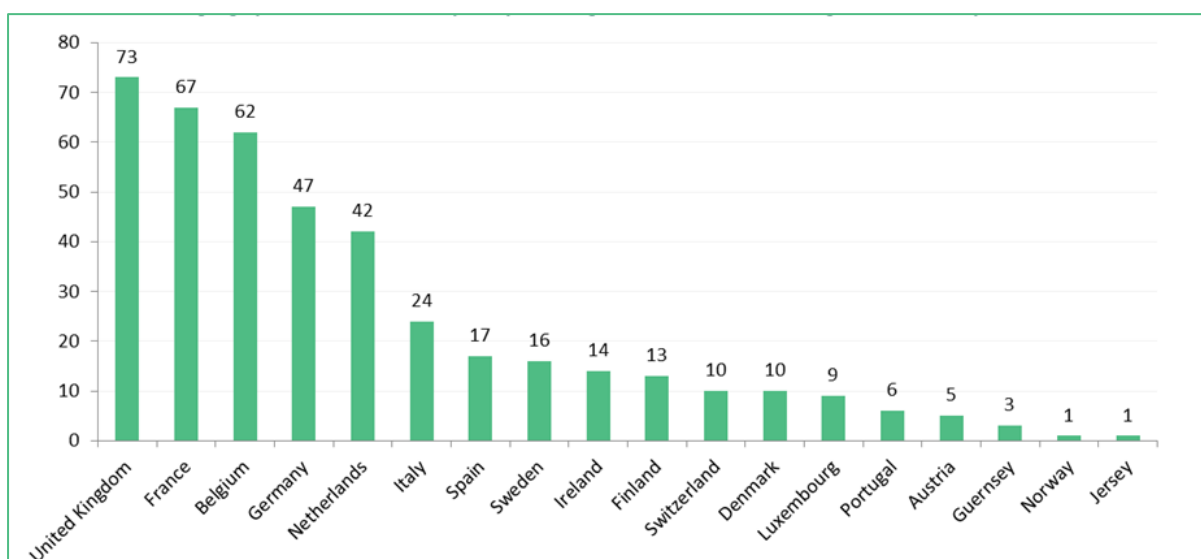


Source: Glass Lewis, DPAM - 31/12/2019



Europe remains the continent our voting activity is mainly focused on.

*Geographic breakdown of the participations in general shareholder meetings - Focus on Europe*



Source: Glass Lewis, DPAM - 31/12/2019

Obviously, most resolutions come from the management. The proposals put forward by shareholders remain a minority and continue to decline compared to last year (2.6% of the total resolutions on which we expressed our opinion).

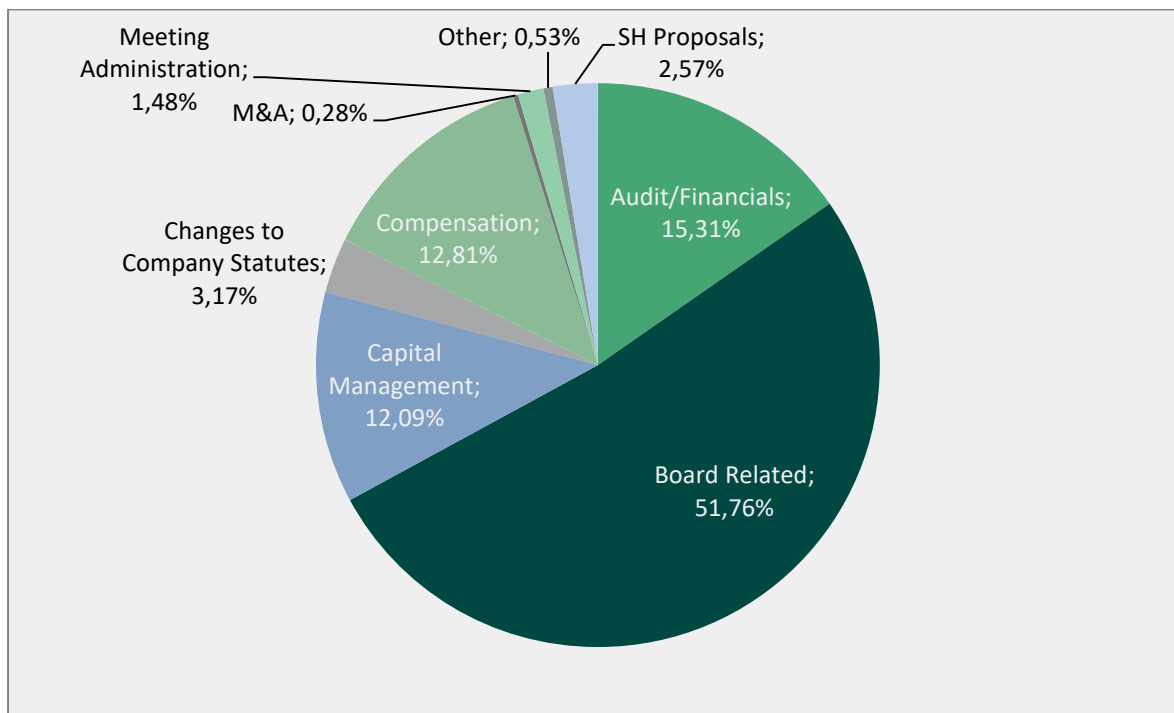
Out of the 9,266 resolutions voted upon, DPAM abstained from voting in 1% of cases, illustrating our determination to speak out. We voted against the resolution in 9.2% of cases, a protest rate in line with last year. Finally, 86.86% of the cases received a positive vote.

We support management in almost 89% of cases, but voted against their recommendations in almost 11% of cases.

Voting instructions are given in accordance with the DPAM active voting policy, which was revised extensively during the year to incorporate best practices in this area and the latest regulatory developments. In line with our Active, Sustainable and Research positioning, we have deliberately left certain agenda items to the case-by-case assessment of our voting committee in order to maintain our ability to critically analyse certain scenarios or to allow companies a certain amount of time to adapt through our engagement. As a result, we did not strictly follow the guidelines of our voting policy in 3.5% of the resolutions on which we voted. These were essentially resolutions on the appointment or re-election of directors due to a lack of independence of the boards of directors with whom we entered into dialogue and for which we allow a certain amount of time to adapt. Capital increases through the issue of new shares or convertibles or in kind are also subject to an in-depth study on a case-by-case basis, taking into account the specificities of the economic sector in question (common practice of listed real estate companies, for example).

As mentioned, the agenda items remain very traditional, namely essentially items relating to the board of directors, the audit and financial results, executive remuneration and capital management.

Breakdown of resolutions by topic

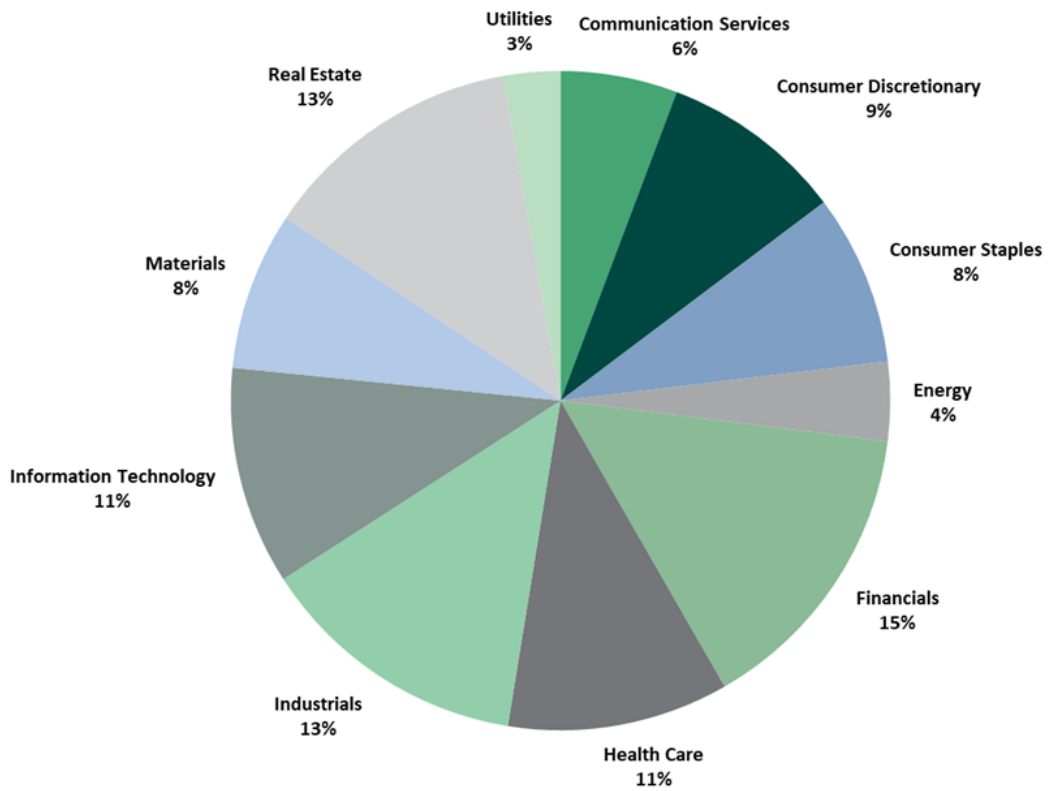


Source: Glass Lewis, DPAM - 31/12/2019

Our instructions to vote against resolutions tabled by shareholders focus on the issue of remuneration, changes to the companies' articles of association and the issue of capital management. On the question of shareholder resolutions on remuneration, DPAM has chosen the path of engagement with the management.

In terms of sectors, DPAM voted for most sectors. The four main sectors - finance, industry, real estate and pharmaceuticals - cover slightly more than half of the companies in which we voted. The real estate sector, which is an industry in its own right, has always been a sector in which we have actively participated. We discuss best practices and voting recommendations from major consulting agencies given the specificities of this sector, its regulation and the current practice of capital increases through contributions in kind.

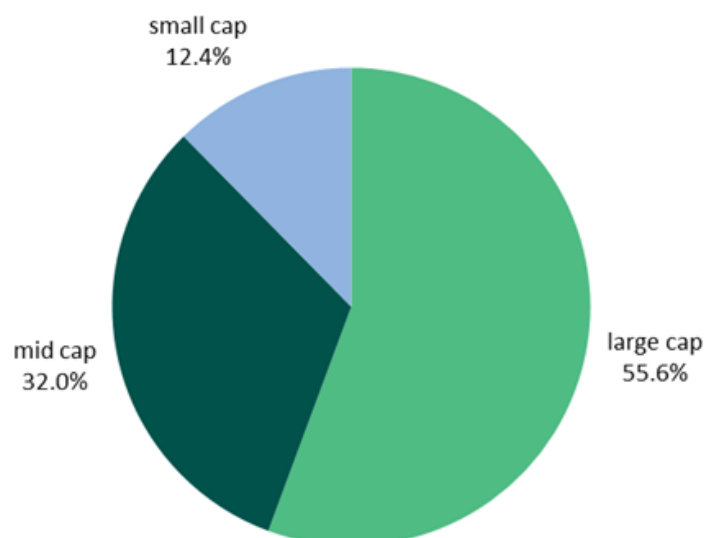
Breakdown by sector of attendance at shareholder meetings (in number of meetings)



Source: Glass Lewis, DPAM - 31/12/2019

In terms of market capitalisation of the companies in which DPAM has participated, the index strategies tracking main market indices tend to vote more for large caps (over €10 billion).

Breakdown by market capitalisation of attendance at shareholder meetings (in number of meetings)



Source: Glass Lewis, DPAM - 31/12/2019

Engagement was a major priority for DPAM in 2019, whether it was cooperative engagement, individual engagement or less formal interaction with companies. It is therefore with pride that we have seen our commitment bear fruit in recent years. Indeed, our willingness to engage with companies by informing them in advance of our voting intentions on key issues is increasingly leading to a constructive discussion with companies on the reasons behind our voting instructions, on best practices to be followed in the cases concerned and constitutes a mutual exchange of expertise and experience. This engagement with companies increased significantly in 2019.

As a result, 171 letters were sent, an increase of 128% compared to 2018, leading to 13 discussions and reactions from companies (compared to three last year).

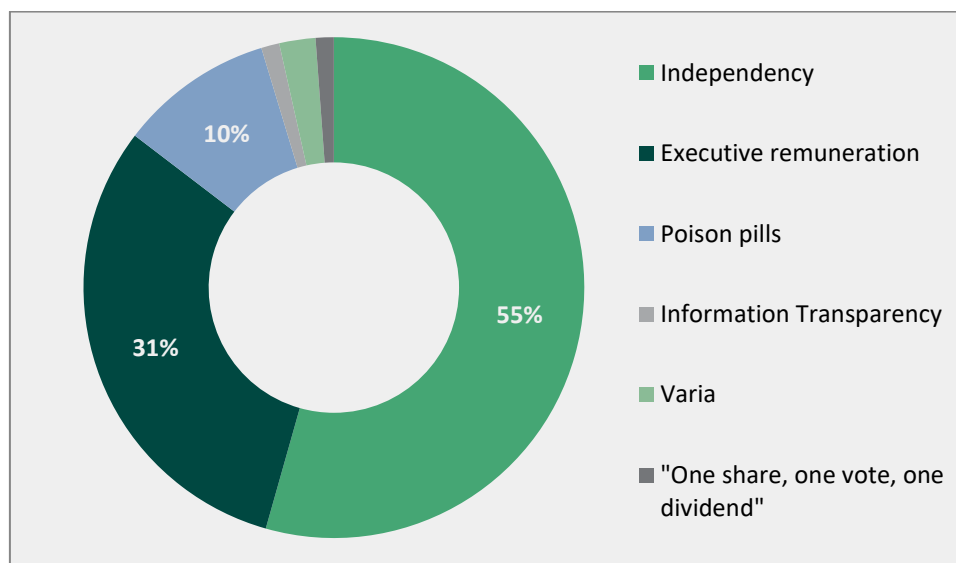
The transparency of our voting intentions reflects our desire to be transparent at all levels of our sustainable offering. Our areas of engagement were defined by our voting steering committee in order to focus on key corporate governance issues. There are five of them:

1. The election or re-election of a board member is not valid for technical reasons. In that case, DPAM casts a positive vote the first year, but encourages the company to provide more detailed and transparent information, which is consistent with its principles of integrity and transparent information;
2. The independence of the board of directors is not guaranteed because its composition lacks balance. DPAM may abstain from casting a positive vote and encourage companies to increase the level of independency of its committees and board of directors. We systematically vote against combining the function of CEO and Chairman of the Board;
3. Anti-takeover defences (*poison pills*). DPAM rejects any initiative that may harm the rights of minority shareholders;
4. Multiple voting rights: we are staunch advocates of the principle "*one share, one vote, one dividend*", and therefore we are opposed to any initiative curtailing this principle.
5. Transparency of the executive function remuneration report, in line with best practices that require, among other things, clear and quantified parameters to determine key indicators

(performance objectives, qualitative criteria, etc.) in the medium term, a recovery provision (clawback/malus system on bonuses granted) and specific conditions for the remuneration of Board members for their activities/services outside of the board. DPAM may abstain from voting favourably on any initiative that might harm the interests of shareholders, such as a repricing option in the event of a change of control which may discourage potential buyers from bidding on the company.

The independence of boards of directors and the question of remuneration of executive positions remain the dominant subjects of engagement.

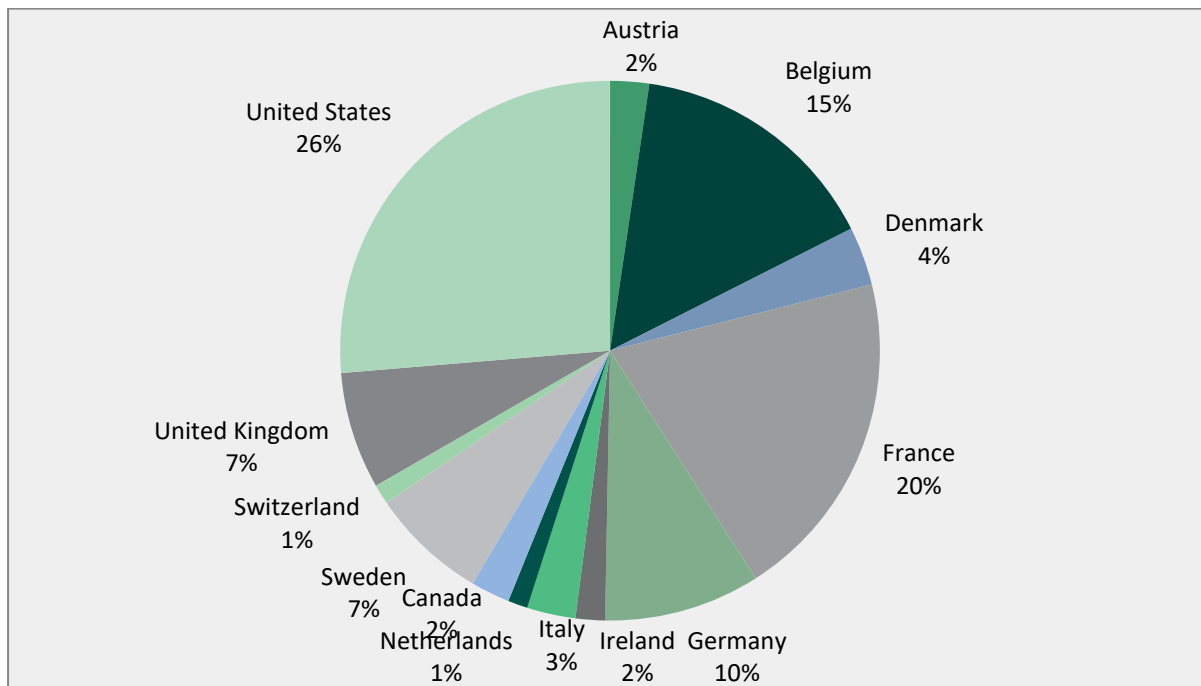
*Thematic breakdown of dialogues undertaken with companies*



Source: Glass Lewis, DPAM - 31/12/2019

Geographically, the dialogues we are engaging in remain focused on France and the United States.

Geographic breakdown of dialogues undertaken with companies



Source: Glass Lewis, DPAM - 31/12/2019



## Degroof Petercam Asset Management as a responsible player

Degroof Petercam Asset Management is the asset management division wholly owned by Bank Degroef Petercam. Boasting a long track record in the management of equity, fixed income, mixed as well as responsible investment funds, it presents active management strategies as well as quantitative and asymmetric strategies.

DPAM, the new management company, born out of the merger between Degroef Fund Management Company and Petercam Institutional Asset Management, has reiterated the commitment made in 2011, when becoming a signatory to the United Nations Principles for Responsible Investment (UN PRI), which aim to foster the integration of environmental, social and governance (ESG) criteria into investment management decision processes. In signing this initiative, the company committed to adopting and implementing the six key principles of the UN PRI and publicly shows its high-level commitment to integrating ESG criteria in a consistent manner by fulfilling its social role, and by contributing to the development of an investment approach that is more geared towards the long term and is more sustainable.

Taking part in shareholder meetings is a tenet of our social responsibility.

It is an efficient way of showing our commitment to a more sustainable financial industry, advocating sustainable growth and a long-term risk management approach. As a matter of fact, general meetings are a good venue for exchanging ideas between shareholders and company executives. This allows well-informed investors to address specific issues in a more detailed way, or to raise pertinent questions.

By adopting this approach, DPAM advocates a vision that shows greater respect for humans and their environment in the long term. As investment horizons become constantly shorter, it is important to put the shareholder at the heart of the company as a co-owner who places its longevity above short-term profits.

Shareholder involvement, taking the form of *engagement*, voting at shareholder meetings and/or entering into an engaged dialogue with a company, is a management tool that investors should fully embrace in order to better assess global risks, to uphold certain values and best practices, and in doing so, to contribute to more sustainable companies. It is therefore a long-term process which, due to the snowball effect and provided it is well-structured, creates added value for companies and enhances their performance as well as the long-term viability of investments.

Hence, we believed it to be essential to include our full investment fund range in our voting policy in order to bring together our voting rights and make our voice heard in a manner that is in line with our investment and participation levels.

## VOTING ADVISORY BOARD

The votes have been cast in accordance with the 2019 voting policy adopted by DPAM and DPAS, steered by its Voting Advisory Board (VAB) in February 2019. This voting policy was revised in-depth to meet the requirements of the Directive of Shareholders Rights II in 2019. As a result, the revised version will be implemented for the proxy season 2020.

IVOX Glass Lewis GmbH (Ivox GL) assists DPAM in executing proxy instructions and in analysing the proposals of the shareholders meetings' agendas, as referred in the Voting Policy of DPAM.

The VAB consists of seven internal members and three external members.

The internal members are:

Caroline Tubeuf	Secretary General of Degroof Petercam Asset Management
Ophélie Mortier	Responsible Investment Strategist
Jérôme Castagne	Member of the DPAS Management Board, Head of Client Services
Philippe Deneff	Member of the DPAM Management Board, CIO Quantitative Equity & Asymmetric Management
Hugo Lasat	Chairman of the DPAM Management Board, CEO DPAM
Guy Lermينياux	Member of the DPAM Management Board, CIO Fundamental Equity
Johan Van Geeteruyen	Member of the DPAM Management Board, CIO Global Balanced Conviction Management

The three external members were invited to join the board in view of their experience and expertise in terms of corporate governance.

Katrien Vorlat, a lawyer specialising in mergers and acquisitions, Geert Maelfait, an independent expert in corporate governance with a long-standing experience in banking and insurance and Dominique Liénart, former secretary general of BNPP IP, joined our board and provide us with their experience and expertise.

## DISCLAIMER

This document is intended to provide an overview of DPAM's voting policy and guidelines. It is not intended to be exhaustive and does not address all potential voting issues.

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