

JSS Newsletter International
(Vol.5 November 2016)

Voting by investment trust management companies

On October 14, 2016, the Investment Trusts Association, Japan published the result of a questionnaire survey conducted with investment trust management companies that are full-members of the Association (67 companies investing in domestic stocks) regarding the status of the exercise of voting rights pertaining to domestic stocks at general meetings of shareholders held in May and June 2016.

1. Summary of results of the questionnaire survey on voting by investment trust management companies

(1) Status of affirmative/negative votes on company and shareholder proposals
(respondents: 67 companies)

The ratio of affirmative votes was below 90% on the following agenda: provision of retirement bonuses (51.61%), others (69.41%), election of supervisory auditors (75.44%), election of directors (81.03%), and issuance of share subscription rights (85.95%). In particular, the ratio of affirmative votes on election of directors fell significantly by 6.27 points from the previous year due to, among others, the application of stricter standards to top executives of companies that do not have more than one outside directors.

The ratio of affirmative votes on shareholder proposals increased by 3.44 points to 8.26% from 4.82% in the previous year. The ratio of affirmative votes was above 10% on the following shareholder proposals: disclosure of remuneration amount (49.47%), share buyback (29.58%), and dividend increase (18.09%).

Agenda	Affirma- tive	Negative	Abstention	Total	Aff. vote ratio	Change from prev. year	Neg./abs. vote ratio
Distribution of income	30,520	1,160	9	31,689	96.31%	0.38pt	3.69%
Election of directors	61,715	14,422	22	76,159	81.03%	▲6.27pt	18.97%
Election of supervisory auditors	27,378	8,903	12	36,293	75.44%	▲2.57 pt	24.56%
Amendment of articles of incorporation	14,802	783	3	15,588	94.96%	▲0.76 pt	5.04%
Provision of retirement bonuses	2,110	1,973	5	4,088	51.61%	▲5.36 pt	48.39%
Revision of remuneration amount	18,154	729	9	18,892	96.09%	0.73 pt	3.91%
Issuance of share subscription rights	3,535	578	0	4,113	85.95%	2.73 pt	14.05%

Appointment of accounting auditor	767	5	0	772	99.35%	0.20 pt	0.65%
Reorganization, etc. ¹	779	35	0	814	95.70%	▲0.36 pt	4.30%
Others ²	6,282	2,763	5	9,050	69.41%	▲0.17 pt	30.59%
Shareholder proposals ³	334	3,657	54	4,045	8.26%	3.44 pt	91.74%

1 M&A, business transfer, share exchange, share transfer, and company split

2 Poison Pills, issuance of new shares through third-party allotment, decrease in legal reserves, share buyback, decrease in capital, share consolidation, etc.

3 Dividend increase, share buyback, disclosure of remuneration amount, etc., proposals related to (board of) directors, proposals related to (board of) supervisory auditors, reduction of retirement bonuses, etc., amendment of articles of incorporation, etc.

(2) Other questionnaire items

Questionnaire items	Special notes
Whether there has been any revision of internal rules in the past year	<ul style="list-style-type: none"> ✓ 40% of the investment management companies (27 companies) revised some of their internal rules (55% in the previous year). ✓ In many cases, stricter rules were adopted such as “if more than one outside directors have not been elected, the Company shall vote against the directors.” ✓ In some cases, rules were relaxed in certain areas. For example, there were certain revisions to accommodate flexible judgment on independence based on individual facts and circumstances.
Use of proxy advisors in making a judgment on voting (new question)	<ul style="list-style-type: none"> ✓ 48% of the investment management companies (32 companies) indicated that they are using advisory services of proxy advisors in some form. ✓ Among the companies that indicated that they are using advisory services, the largest percentage of them (24%, 16 companies) indicated that “they take into consideration of such advice in making a judgement in giving voting instructions.”
Explanations to issuer companies	<ul style="list-style-type: none"> ✓ 60% of the investment management companies (40 companies) indicated that they have provided explanations (63% in the previous year).
Prior explanations from issuer companies on agenda	<ul style="list-style-type: none"> ✓ 54% of the investment management companies (36 companies) indicated that they have received explanations (55% in the previous year). ✓ The largest percentage of them indicated that they have received explanations on “Poison Pills” and “independence of candidates of outside officers.”
Explanations from issuer companies on responses to CG codes	<ul style="list-style-type: none"> ✓ 60% of the investment management companies (40 companies) indicated that they have received explanations (60% in the previous year). ✓ The largest percentage of them indicated that they have received explanations on “effectiveness assessment of the board of directors.”

2. Voting results of investment trust management companies (domestic vs. foreign-affiliated)

The voting results of 15 domestic investment trust management companies and 9 foreign-affiliated investment trust management companies, which are full-members of the Investment Trusts Association, Japan and disclose their voting results at general meetings of shareholders in May and June 2016, are summarized in the following table.

While foreign-affiliated companies made stricter judgments on election of directors, retirement bonuses, and reorganization, etc., domestic companies made stricter judgments on distribution of income. The ratio of affirmative votes on shareholder proposals is higher in foreign-affiliated companies than in domestic companies.

	Affirmative votes	Negative votes	Abstention
Distribution of income			
Domestic	11,087 (94.30%)	670 (5.70%)	—
Foreign-affiliated	11,622 (98.65%)	152 (1.29%)	7 (0.06%)
Negative votes were cast, for example, when the payout ratio fell short of certain standards established by the investment trust management companies and when the payout ratio was assessed to be low due to a problem in the effective utilization of shareholders' equity.			
Election of directors※			
Domestic	11,828 (72.59%)	4,464 (27.40%)	2 (0.01%)
Foreign-affiliated	2,559 (66.42%)	1,278 (33.17%)	16 (0.42%)
Negative votes were cast, for example, against directors when capital efficiency has been poor and failed to improve for some time, when more than one outside directors are not proposed to be elected, when the number of directors is proposed to be increased without rational grounds, and against outside directors who are determined to lack independence.			
Some companies revised independence criteria for outside directors to enhance objectivity and fairness, adopting the criteria for independent officers established by a financial instruments exchange.			
Election of supervisory auditors※			
Domestic	8,752 (76.43%)	2,699 (23.57%)	—
Foreign-affiliated	2,026 (73.91%)	705 (25.72%)	10 (0.36%)
Votes are cast based mainly on the independence of outside supervisory auditors and their attendance ratio at the meetings of the board of directors and the board of supervisory auditors.			
Amendment of articles of incorporation			
Domestic	5,397 (94.20%)	332 (5.80%)	—
Foreign-affiliated	5,961 (92.82%)	459 (7.15%)	2 (0.03%)
There were companies that voted affirmative, in principle, on changes in the articles of incorporation to implement the transition to a company with Audit and Supervisory Committee on the ground that it will enable faster management decision making and on changes to allow the distribution of income based on the resolution of the board of directors provided that the rights of shareholders to make proposals are not precluded.			

Provision of retirement bonuses

Domestic	996 (57.47%)	737 (42.53%)	—
Foreign-affiliated	396 (29.64%)	935 (69.99%)	5 (0.37%)

The ratio of negative votes was higher if such bonuses were proposed to be paid also to outside directors and supervisory auditors.

Revision of remuneration amount

Domestic	6,539 (96.29%)	252 (3.71%)	—
Foreign-affiliated	7,701 (96.70%)	255 (3.20%)	8 (0.10%)

Many investment trust management companies recommend the introduction of a remuneration plan that is linked to medium- to long-term performance and votes were cast based also on whether the remuneration amount determination process or the total remuneration amount was clear.

Issuance of share subscription rights (including stock options)

Domestic	1,254 (84.50%)	230 (15.50%)	—
Foreign-affiliated	907 (86.13%)	146 (13.87%)	—

Investment trust management companies generally voted negative if the plan design was inadequate from the perspectives of persons who are entitled to such rights (whether persons whose role is not clearly linked to performance are entitled to such rights), exercise price or potential dilution of shares.

Reorganization, etc. (M&A, business transfer, share exchange, share transfer, and company split)

Domestic	334 (97.09%)	10 (2.91%)	—
Foreign-affiliated	188 (82.10%)	41 (17.90%)	—

Investment trust management companies made a judgment on, for example, whether the shareholder value is likely to be significantly impaired, on a case-by-case basis.

Others (Share buyback, decrease in legal reserves, issuance of new shares through third-party allotment, decrease in capital, share consolidation, Poison Pills, etc.)

Domestic	2,970 (73.94%)	1,047 (26.06%)	—
Foreign-affiliated	886 (42.88%)	1,176 (56.92%)	4 (0.19%)

Similarly to the previous year, negative votes were cast on the introduction or revision of Poison Pills in cases where the performance of the issuer company had been weak for a long-term period or where the plan was likely to be activated arbitrarily by the board of directors. The ratio of negative votes was generally high.

Shareholder proposals

Domestic	86 (6.14%)	1,314 (93.86%)	—
Foreign-affiliated	188 (10.13%)	1,613 (86.95%)	54 (2.91%)

Investment trust management companies generally voted affirmative on shareholder proposals that would contribute to the interest of shareholders as a whole and votes were cast based on, for example, whether the proposal was expected to provide checks on management or to enhance the transparency of management.

* Figures in election of directors and election of supervisory auditors exclude those of three foreign-affiliated companies that aggregate data by counting each candidate as one agenda.