

EFAMA Stewardship Code

Principles for asset managers' monitoring of, voting in, engagement with investee companies

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PURPOSE OF EFAMA STEWARDSHIP CODE

In 2011 EFAMA produced its 'Code for external governance', providing a framework of high-level principles-based set of recommendations ("Principles") and best practice recommendations to cover the engagement between asset managers and the companies in which they invest.

In 2017, following the adoption of the Revision of the Shareholder Rights Directive 'revised Shareholder Rights Directive', EFAMA updated its Code, renaming it the EFAMA Stewardship Code. The revised EFAMA Stewardship Code should be applied on a 'comply or explain' basis and aims to be a European reference document, notably for asset managers seeking to comply with the revised Shareholder Rights Directive (in particular article 3g regarding engagement policy).

This approach relies upon good judgement rather than prescription. As such, the guidance recognise that the "best" approach for many issues depends on circumstances.

The Code is not designed to supersede applicable law and regulations nor national Stewardship Codes or statements.

DEFINITIONS

Stewardship: engagement, i.e. the monitoring of and interaction, with investee companies, as well as exercising voting rights attached to shares. Engagement can be on matters such as: business strategy and its execution; risk management; environmental and social concerns; corporate governance issues such as board composition and the election of independent directors, together with executive remuneration; compliance, culture and ethics; and performance and capital structure. Asset managers have a duty to act in the best interests of their clients as they are entrusted with their money.

Asset manager: an AIFM (alternative investment fund manager), an investment company authorised under the UCITS Directive or an investment firm which provides investment management services such as portfolio management and/or segregated account management on a discretionary basis as a main business.

Institutional investors: include various (legal) entities such as pension funds, insurance companies, and other asset owners.

Client: any natural or legal person to whom an asset manager provides investment management services. The client may be an individual or institutional asset owner.

Investee company: a company receiving the investment from asset owners, asset managers and other investors.

BACKGROUND

Asset managers manage the assets entrusted to them by clients in accordance with strict statutory and regulatory requirements. They invest that capital in companies on behalf of their clients and have a duty to act in the best interest of their clients, both individual and institutional asset owners, irrespective of the composition, size and timeframe of the mandate. Asset managers may seek to preserve and enhance value in the companies they invest in, through exercise of voting rights and engagement, in such a way that providers of capital prosper.

The clients of asset managers should decide their strategies and set their expectations either as part of the mandate with the asset manager or by choosing the appropriate collective investment scheme. As part of their duty to act in the client's best interest, asset managers should act in accordance with and align the investment strategy with a client's mandate or the investment policies of the collective investment scheme.

When institutional investor clients' award mandates to asset managers, stewardship should be discussed and the approach agreed with the asset manager. In these scenarios, asset managers are then responsible for ensuring that they comply with the terms of the mandate as agreed.

Asset managers should consider stewardship/engagement for all equity portfolios investing in companies, be it for index or active investment strategies or specific Environmental Social and Governance 'ESG'¹ products. Depending on the strategy, active managers would be expected to develop a deep understanding of investee companies which facilitates the ability to have a meaningful discussion with them. Index-tracking managers hold shares in a company for as long as it is included in the index - they have the ability to establish a patient and constructive relationship with the company.

Asset managers should engage with, and exercise their voting rights attached to the shares of, the companies in which they invest - provided they can overcome external obstacles - in order to maintain and enhance long-term value, with the aim of preserving or adding value to the clients' assets.

¹ For more information on our views on ESG matters, please refer to the [EFAMA Responsible Investment Report 2016](#)

Asset managers should communicate issues they may have to the investee company through direct contact with management or board members. Discussions should take place on: business strategy and its execution; risk management; environmental and social concerns; corporate governance issues such as board composition and the election of independent directors, together with executive remuneration; compliance, culture and ethics; and performance and capital structure. When an asset manager is unable to resolve matters through dialogue, it may vote against the relevant company resolution at a general meeting and those that are active may sell their holding in the company. Material environmental and social matters should also form a part of the discussions and are often an integral element of investment analysis and decision-making.

Engagement by active and index-tracking investors differs from the approach taken by activist investors who purchase large numbers of shares in a company and may try to obtain seats on the company's board with the goal of effecting a major change in the company.

COMMITMENT AND REVIEW

To improve transparency and demonstrate their commitment to stewardship, asset managers are encouraged to publicly confirm adherence to the EFAMA Stewardship Code and publicly disclose their engagement policy as per Principle 1 of this Code, for example on their website or in their annual financial statements, or disclose why they have not.

The EFAMA Stewardship Code will be reviewed by EFAMA every two years.

SCOPE

The Principles below set out best practices for asset managers when they engage with the companies in which they invest on behalf of clients.

The Principles are relevant whenever asset managers seek to engage with investee companies and can be applied to any investee company regardless of market capitalisation, although a proportionate approach may be applied for practical reasons, e.g. according to the percentage of ownership in the relevant investee company. They are relevant insofar as the asset managers themselves are endowed with shareholder rights and obligations on behalf of their clients. The Principles cover engagement in relation to an investee company on matters such as:

- Business strategy and its execution
- Risk management
- Environmental and social concerns
- Corporate governance issues such as board composition and the election of independent directors, together with executive remuneration
- Compliance, culture and ethics

- Performance and capital structure

The Principles are designed to enhance the quality of dialogue with companies and help asset managers create value for their clients by dealing effectively with concerns over a company's performance. They do not constitute an obligation to micro-manage or intervene in the day-to-day affairs of investee companies or preclude a decision to sell a holding where that is the most effective response to such concerns.

PRINCIPLES

PRINCIPLE 1: Asset managers should have an engagement policy available to the public on whether, and if so how, they exercise their stewardship responsibilities. Where asset managers decide not to develop an engagement policy, they should give a clear and reasoned explanation as to why this is the case².

Guidance

This policy should take into consideration the widely differing cultures, legal frameworks and company structures amongst EU Member States, as well as the different investment strategies of asset managers.

When the asset manager has a policy on how they exercise their stewardship responsibilities, the policy should include, inter alia:

- How they integrate engagement in their investment strategy;
- How investee companies are monitored, for example through research, relationship building / meetings with companies, including on matters such as:
 - Business strategy and its execution
 - Risk management
 - Environmental and social concerns
 - Corporate governance issues such as board composition and the election of independent directors, together with executive remuneration
 - Compliance, culture and ethics
 - Performance and capital structure.
- How they conduct dialogue with investee companies;
- How potential and actual conflicts of interest are managed;

² The Revised Shareholder Rights Directive sets out an obligation in Article 3g to publicly disclose an engagement policy or publicly disclose a clear and reasoned explanation why they have not chosen to do so.

- How issues around insider information are handled;
- The approach to stock lending and recalling lent stock;
- The strategy on escalation (see Principle 3);
- The approach to collective engagement (see Principle 4), where appropriate;
- How they exercise their voting rights, and the use made of, if any, proxy voting or other voting advisory services (see Principle 5).

An asset manager's public disclosure of its engagement policy should normally be regarded as fulfilling the obligation to communicate with relevant stakeholders of their investee companies.

PRINCIPLE 2: Asset managers should monitor their investee companies, in accordance with their engagement policy³.

Guidance

Investee companies should be monitored to determine when it is necessary to enter into an active dialogue with their boards or management. This monitoring should be regular, and asset managers should seek to satisfy themselves, to the extent possible, that the investee company's board, sub-committee structures and management are effective, and that independent directors provide adequate oversight.

If asset managers have concerns, they should seek to ensure that the appropriate members of an investee company's board or management are made aware of them.

PRINCIPLE 3: Asset managers should establish clear guidelines on when and how they will escalate engagement with investee companies to protect and enhance value of their clients' investments.

Guidance

Asset managers should set out the circumstances when they will actively engage with investee companies and periodically assess the outcomes of doing so. Instances when the asset manager may want to engage include when they have concerns about: the company's business strategy and its execution; risk management; environmental and social concerns; corporate governance issues such as board composition and the election of independent directors, together with executive remuneration; compliance, culture and ethics; and performance and capital structure. However for actively managed holdings, disinvestment from the investee company may be an appropriate measure in specific cases in order to protect clients' interests.

Escalation may comprise:

³ As part of the engagement policy based on a 'comply or explain' principle in Article 3g, SRDII sets out an obligation to monitor investee companies.

- Holding meetings with a company's management or board specifically to discuss concerns. This could include meetings with the Chief Executive Officer, senior independent director or the chairman, as the case may be, or with other independent directors/board members;
- Expressing concerns through the company's advisers.

Contact with a single or several board members of investee companies can consist in unilateral communication from asset managers to board members (one-way engagement), or in bilateral dialogue (bi-way engagement):

- In a one-way engagement, asset managers present their perspective regarding specific issues to board members of investee companies, who in turn do not communicate any information.
- During a bi-way engagement, an exchange of information should take place between asset managers and board members of investee companies.

If boards do not respond constructively, then the asset manager should consider whether to escalate further their action, for example, by:

- Intervening jointly with other investors on particular issues;
- Submitting resolutions at general meetings;
- Voting against proposed resolutions as appropriate; and
- Calling an EGM to propose shareholder action, for example to effect changes to the board.

PRINCIPLE 4: Asset managers should consider acting with other investors, where appropriate, having due regard to applicable rules on acting in concert.

Guidance

At times collaboration with other investors may be the most effective manner in which to engage. It may be appropriate to engage collectively at times of significant corporate or wider economic stress, or when the risks posed threaten to destroy significant value or the ability of the company to continue in operation. Any collaboration must have regard to applicable rules on acting in concert, including specific national rules.

Asset managers when participating in collective engagement should have due regard to market regulations and their own policies on conflicts of interest and insider information.

Besides any collective engagement with respect to a specific company, asset managers can engage collectively on policy issues at any time.

PRINCIPLE 5: Asset managers should exercise their voting rights in a considered way.**Guidance**

Asset managers should have a policy on defining how and when voting rights will be exercised to the exclusive benefit of their clients. The policy should define procedures and measures for preventing or managing any conflicts of interest arising from the exercise of voting rights.

Asset managers, as shareholders, should seek to give instructions so that they vote all shares held, provided they can overcome external technical obstacles. They should not automatically vote in favour of resolutions proposed by the board or management but evaluate each item separately. They should register an abstention, if permitted in the relevant market, or vote against the resolution if they deem it to be in the best interests of their clients.

PRINCIPLE 6: Asset managers should disclose the implementation and results of their stewardship and voting activities.**Guidance**

Asset managers should disclose how they have discharged their stewardship / engagement responsibilities.

Asset managers should disclose publicly how they have implemented their engagement policy, including a general description of voting behaviour, an explanation of the most significant votes and the use of proxy voting advisors. They should publicly disclose how they have cast votes in the companies in which they hold shares except where such votes are insignificant due to the subject matter of the vote or size of holding.

Such reports will be likely to comprise both qualitative as well as quantitative information.