

## 2019 Proxy Season Preview – Europe

The quality and quantity of engagement between issuers, investors and proxy advisors continues to grow at year after year across Europe. It has been our experience that the most engaged market participants will this be focused on three key issues over the coming year: Capital authorities, board composition and diversity; and preparation for a variety of regulatory updates, including the passing into national law of the EU Shareholder Rights Directive later this year.

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### Capital Authorities

One issue we believe may be a cause of some shareholder dissent at AGMs on the continent this year is that of authorities for companies to raise capital through the issuance of new shares. While these authorities take different forms across Europe, with different legal requirements and best practice recommendations in play, we have observed that investor expectations are tightening, support levels are falling, and in some markets are becoming increasingly contentious.

### Glass Lewis Approach for 2019

Glass Lewis has not adapted its approach to the analysis of capital authorities proposed by continental European companies for the 2019 AGM season. While we are mindful of the evolving views of shareholders, we believe authorities that allow aggregate share issuances of up to 20% of a company's issued share capital without preemptive rights continues to represent common market practice across most European markets. Further, given that the terms of proposed authorities, as well as the potential dilutive effects of other outstanding capital authorities, are clearly outlined in our analysis, we believe that clients are equipped with enough information to develop an informed opinion on whether the terms of proposed authorities align with their expectations. We will continue to closely monitor evolving market practice in Europe, which will feed into future policy discussions.

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### Board Composition and Diversity

In recent years, a variety of stakeholders have advocated for increased female representation on public company boards. This effort, which has underpinned by a variety of code recommendations and legal requirements, continues across Europe and has seen female representation increase slowly but steadily in recent years. Countries such as France, Germany and Italy have been leading the way in this regard, with only the Netherlands reporting a slight decrease in the percentages of female representation at both blue chip and mid cap companies.

## Glass Lewis Approach for 2019

Following on from a previous policy update by which we codified our assessment of board skills as an integral part of the analysis of proposals to elect directors, we have clarified our expectation that companies listed on a blue-chip index in Europe provide particularly meaningful disclosure in line with developing best practice standards. If a board has failed to address material concerns regarding its diversity/composition, we will consider recommending voting against the chair of the nomination committee or equivalent.

In addition, our analysis of director elections will now include a board skill matrix for *all* European and Russian blue-chip companies (previously limited to a subset of European blue-chip indices).

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## Regulatory Updates

In France, AFEP, the French Association of Large Companies, and MEDEF, the Movement of the Enterprises of France, have published an updated version of their corporate governance code, which is followed by virtually all large- and mid-cap companies. In Germany, a working group of corporate governance experts has issued new “Guidelines for Sustainable Management Board Remuneration Systems”, promoting the implementation of principles contained in the EU Shareholder Rights Directive and anticipating many of the regulatory changes expected in 2019.

In Belgium, the new draft of the Companies Code provides for the introduction of shares with double voting rights, provided that the shares have been held by the same shareholder for an uninterrupted period of two years. The introduction of such loyalty shares would, however, require approval a two-thirds majority of shareholders to approve the required amendments to a company’s articles of association.

## Glass Lewis Approach for 2019

Glass Lewis is generally opposed to measures that treat shareholders unequally. As such, we do not favour the creation or extension of multiple classes of stock, which we believe to be detrimental to the equal exercise of shareholder rights.

As such, we will recommend shareholders vote against the implementation of provisions relating to such loyalty initiatives into a company’s articles of association. Further, in France where a company already has double voting rights and is proposing to amend the holding period required to take advantage of them, we will support proposals that shorten the holding period. While we oppose the granting of double voting rights, we believe a shorter holding period allows more shareholders to benefit from such provisions where they already exist.

## SHOW NOTES

Glass Lewis presents a preview of the upcoming 2019 proxy season for continental Europe. Members of the Glass Lewis research team discuss key developments for the 2019 proxy season, including capital authorities, board composition and diversity, and a variety of regulatory updates.

## SPEAKERS

- Martin Mortell – Director of Research, UK & Europe
- Chris Rushton – Lead Analyst, Germany, Austria and Switzerland
- Simona Rubino, Senior Analyst, Italy
- Elena Leofanti – Manager, Continental Europe
- Anna Yuryeva – Analyst, Benelux
- Matti Jaakkola – Lead Analyst, Iberia
- Marie Römer – Analyst, Germany, Austria and Switzerland

## SHOW NOTES

- Capital Authorities (00:40)
- Board Composition and Diversity (09:40)
- Regulatory Updates (16:40)

Produced by Martin Mortell