

# Voting at General Meetings of Shareholders (GMs)

## Review of 2018

March 2019

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### MEETINGS

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**Each delegated management company exercises the voting rights attached to the shares held on behalf of ERAFP:**

- for the entire portfolio under management
- applying ERAFP's specific voting policy.

**ERAFP conducted a detailed and coordinated review of voting by its management companies, on a sample of:**

- 40 French companies
- 20 Foreign companies

**This sample represents around 50% of ERAFP's equities portfolio in terms of market capitalisation.**

# 01

## A DETAILED REVIEW OF FRENCH GENERAL MEETINGS



## Voting results at General Meetings - France

|                                       |   | 2018  | 2017   | 2016  | 2015  | 2014   | 2013  | 2012  |
|---------------------------------------|---|-------|--------|-------|-------|--------|-------|-------|
| Overall results                       | Resolutions (excluding external resolutions) monitored by ERAFP   | 913   | 889    | 810   | 772   | 821    | 658   | 309   |
|                                       | Average adoption rate per GM of resolutions proposed by management  | 93.6% | 93.70% | 94.5% | 94.4% | 93.6%  | 96.0% | 94.0% |
|                                       | Resolutions (excluding external resolutions) rejected by the GM   | 0.4%  | 1.7%   | 1.8%  | 3.6%  | 0.2%   | 0.2%  | 1.0%  |
|                                       | Resolutions (excluding external resolutions) adopted by less than 90% of the votes                              | 19%   | 19.1%  | 16.6% | 16.9% | 20.0%  | 13.0% | 18.0% |
|                                       | Resolutions (excluding external resolutions) adopted by less than 70% of the votes                              | 2.7%  | 2%     | 1.8%  | 5.5%  | 5.1%   | 1.0%  | 4.0%  |
| ERAFP votes                           | ERAFP votes (excluding resolutions submitted by shareholders) in favour of the resolution                       | 56.3% | 56.8%  | 60.5% | 67.7% | 60.7%  | 62.0% | 66.0% |
|                                       | ERAFP votes in favour of a dividend distribution  | 87.5% | 50%    | 51.4% | 60.5% | 43.6%  | 42.5% | -     |
|                                       | Average adoption rate per GM of resolutions concerning a dividend distribution                                  | 99.2% | 99.1%  | 99.1% | 95.9% | 98.8%  | -     | -     |
|                                       | ERAFP votes in favour of resolutions concerning executives' remuneration  | 9.4%  | 8.3%   | 16.9% | 16.5% | 19.7%  | -     | -     |
|                                       | Average adoption rate per GM of resolutions concerning executives' remuneration                                 | 86.8% | 87.2%  | 90.8% | 87.8% | 89.5%  | -     | -     |
|                                       | ERAFP votes in favour of appointments of directors (appointment or reappointment)                               | 67.3% | 63%    | 67.6% | 66.9% | 71.8%  |       |       |
|                                       | Average adoption rate per GM of resolutions concerning appointments of directors (appointment or reappointment) | 93.4% | 92.4%  | 93.8% | 94.8% | 94.2%  | -     | -     |
|                                       |   |       |        |       |       |        |       |       |
| Resolutions submitted by shareholders | External resolutions submitted  | 6     | 3      | 10    | 9     | 9      | 6     | 5     |
|                                       | External resolutions adopted by the GM  | 1     | 0      | 0     | 0     | 0      | 0     | 0     |
|                                       | External resolutions supported by ERAFP   | 67%   | 67%    | 70%   | 56%   | 77.78% | 83.0% | 80%   |

ERAFP voted against 13.5% of resolutions to approve dividend distributions, essentially for the following reasons:

- 1) High dividend payout rate compared with peers/Weak or negative financial results
- 2) Indebtedness/Investment capacity called into question
- 3) Difficult employment situation
- 4) Opposing trends in employees' and shareholders' comparative income

At the end of 2017, following approval by the Board of Directors, ERAFP decided to clarify and better target companies that do not satisfy its responsible dividend philosophy.

- In 2017, like in 2016, ERAFP voted against around 50% of the resolutions relating to distribution of dividends whereas virtually none of the shareholders voted against. ERAFP's opposition was frequently due to an increase in shareholders' remuneration considered to be *significantly* faster than that of employees' remuneration, with a variable interpretation of the term "significantly" according to the asset managers that vote on ERAFP's behalf.
- In 2018, ERAFP slightly changed its voting policy with regard to the employee/shareholder remuneration difference. Accordingly, ERAFP now opposes dividend distribution when **"the dividend distribution rate is abnormally high and has increased constantly for at least three years whereas the employee' remuneration at constant scope over the same period has decreased."**

We have therefore fine tuned our analysis with the aim of discriminating companies whose financial and/or social situation is considered incompatible with the proposed dividend distribution.

Cases of negative vote:

- Net loss in 2017, substantial debt, major restructuring and proposed dividend not covered by the company's earnings
- Increase in dividend and significantly higher dividend distribution rate than the sector average, significant debt level, average employee remuneration down slightly over five years.

## NOTE:

Note that in 2017 the Sapin II Law introduced some changes relating to shareholders' votes on executives' remuneration.

|  | 1 <sup>st</sup> vote: Remuneration policy   | 2 <sup>nd</sup> vote: Remuneration report  |
|--|---|--|
| Characteristics of vote                    | Binding, Annualised, Ex-ante  | Binding, Annualised, A posteriori/ex-post, Individualised  |
| Persons concerned                          | <p><i>One-tier board structure</i><br/>CEO, Chairman of the Board of Directors and Deputy CEOs, if any</p> <p><i>Two-tier board structure</i><br/>Chairman and members of the management board<br/>Chairman and members of the Supervisory Board</p>        | <p><i>One-tier board structure</i><br/>CEO, Chairman of the Board of Directors and Deputy CEOs, if any</p> <p><i>Two-tier board structure</i><br/>Chairman and members of the management board<br/>Chairman of the Supervisory Board</p> |
| Elements of remuneration                   | On the principles used to determine the fixed, variable and exceptional elements that make up the total remuneration and benefits of any kind.  | On the amount of the fixed, variable and exceptional elements that make up the total remuneration and benefits of any kind allocated during the previous year and which are due to be paid after the GM.                                 |
| Date of 1 <sup>st</sup> vote:              | 2017  | 2018   |
| Corrective action in the case of rejection | If the General Meeting votes against, the previous year's remuneration policy continues to apply. If the rejection relates to the remuneration of a new executive officer, the remuneration is granted in accordance with the company's existing practices. | If the remuneration report is not approved, the elements of variable or exceptional remuneration in respect of the previous year must be blocked.  |

ERAFP voted against 90.6% (91.5% in 2017) of resolutions to approve remuneration, particularly that of the executives, for the following reasons:

- 1) Excessive remuneration (>100 x minimum wage)
  - 2) Absence of ESG criteria in the variable portion
  - 3) Excessively large variable portion (>300% of fixed pay)/ short-term variable portion > long-term portion
  - 4) Lack of transparency, in particular concerning performance objectives (type of criteria, no targets, minimum and maximum thresholds)
  - 5) Supplementary pension schemes (defined benefit)
  - 6) No allocation of bonus shares to employees.
- Of the 40 French companies monitored, only two in the sample, versus two in 2017 and four in 2016, complied with the condition relating to the amount of remuneration (total remuneration < 100 x the minimum wage) for the ex-post say-on-pay vote on executives' remuneration.
- In the case of two companies that complied with the condition relating to the amount of remuneration, ERAFP did not vote in favour of their remuneration policies for qualitative reasons: no information on target bonus, qualitative criteria representing more than 25% of the bonus and no ties between the executive's remuneration and the company's performance.

Note that one company is considered top of the class. Admittedly the Chairman and Chief Executive Officer's total pay package represented 102 X the minimum wage, but the company also had the best remuneration structure of all the companies monitored this year. 55% of variable remuneration is long term, ESG criteria are included in the bonus and in the variable part of long-term remuneration and the company is particularly transparent with regard to the targets, weighting and levels achieved of its performance criteria. ERAFP therefore considered it acceptable to vote in favour of the resolution.



## ERAFP votes on remuneration policy (ex-ante)

- Of the 40 French companies monitored, only one in the sample complied with the condition relating to the amount of remuneration (total remuneration < 100 x the minimum wage) for the ex-ante say-on-pay vote on the remuneration policy.
- Although this company complied with the condition relating to the amount of remuneration, ERAFP did not vote in favour of its remuneration policy for more qualitative reasons: qualitative criteria representing more than 25% of the bonus and no long-term remuneration.
- It should be noted that numerous corporate remuneration policies set high pay ceilings that enable remuneration to rise to levels far exceeding the socially acceptable threshold set by ERAFP.

### ERAFP voted against 32.7% (36.5% in 2017) of resolutions to appoint or reappoint directors:

- 1) The candidate was not free from conflicts of interest, and less than half of the board members were free from conflicts of interest;
- 2) The candidate held more than three directorships in major listed companies.
- 3) The candidate was the manager of a company and held more than one corporate office outside the group.
- 4) The candidate was a man and less than 40% of the board members were women;
- 5) The candidate was not free from conflicts of interest, less than one third of the board members were free from conflicts of interest and the company was a controlled company;

In some cases, ERAFP has voted in favour of appointments when the candidate did not satisfy all the ERAFP criteria, because their appointment would improve the composition of the board with regard to a particular problem. For example, ERAFP has supported the appointment of female candidates who held too many directorships when there were too few female board members (<40%).

Feminisation of boards, Independence of boards and executive's remuneration:  
all these indicators have risen

| Governance indicators in the sample                | 2018      | 2017      | 2016      | 2015      | 2014      |
|--|-----------|-----------|-----------|-----------|-----------|
| Women board members                                | 45%       | 44%       | 41%       | 36%       | 31%       |
| Independence of boards                             | 57%       | 52%       | 51%       | 47%       | 46%       |
| Average remuneration of highest-paid executive (€) | 4,519,932 | 4,842,008 | 4,328,418 | 3,689,856 | 3,588,105 |

# 02

## DETAILED REVIEW OF INTERNATIONAL GENERAL MEETINGS



|                     |  | 2018         | 2017         | 2016         | 2015         | 2014         |
|---------------------|--|--------------|--------------|--------------|--------------|--------------|
| Overall results     | Resolutions (excluding external resolutions) monitored by ERAFP  | 253          | 241          | 245          | 196          | 287          |
|                     | Average adoption rate per GM of resolutions proposed by management                                     | 96.5%        | 94.4%        | 95.1%        | 96.0%        | 95.0%        |
|                     | Resolutions (excluding external resolutions) rejected by the GM  | 0%           | 1.34%        | 0.44%        | 0%           | 0%           |
|                     | Resolutions (excluding external resolutions) adopted by less than 90% of the votes                     | 6.2%         | 10.4%        | 11%          | 11.5%        | 12.8%        |
|                     | Resolutions (excluding external resolutions) adopted by less than 70% of the votes                     | 0.83%        | 2.71%        | 2.63%        | 0.00%        | 4.9%         |
| ERAFP votes         | ERAFP votes (excluding resolutions submitted by shareholders) in favour of the resolution              | 62.6%        | 42.2%        | 43.3%        | 58.9%        | 62.0%        |
|                     | ERAFP votes in favour of a dividend distribution   | 93.33%       | 53.3%        | 42.9%        | 54%          | 33%          |
|                     | <i>Average adoption rate per GM of resolutions concerning a dividend distribution</i>                  | <i>97.7%</i> | <i>99.4%</i> | <i>98.8%</i> | <i>92.5%</i> | <i>99.5%</i> |
|                     | ERAFP votes in favour of resolutions concerning executives' remuneration                               | 0%           | 5%           | 0%           | 0%           | 10%          |
|                     | <i>Average adoption rate per GM of resolutions concerning executives' remuneration</i>                 | <i>90.2%</i> | <i>81.6%</i> | <i>85.8%</i> | <i>94.1%</i> | <i>92.6%</i> |
|                     | ERAFP votes in favour of appointments of directors (appointment or reappointment)                      | 51.5%        | 31.13%       | 42.68%       |              |              |
|                     | <i>Average adoption rate per GM of resolutions concerning directors (appointment or reappointment)</i> | <i>96.1%</i> | <i>93.3%</i> | <i>93.5%</i> |              |              |
| External resolution | Resolutions submitted by shareholders  | 12           | 17           | 16           | 13           | 4            |
|                     | Shareholders' resolutions adopted by the GM  | 0            | 0            | 3            | 1            | 0            |
|                     | Shareholders' resolutions supported by ERAFP   | 67%          | 65%          | 81%          | 85%          | 100%         |

ERAFP voted against 12.7% of resolutions to approve dividend distributions: Not that only 15 of the 20 companies presented a resolution on dividend distribution. In many countries (United States, Japan, etc.), approval of the dividend by shareholders is not mandatory.

- For the same reasons as given above with regard to the sample of French companies, the percentage of votes against **declined** compared with 2017, when it was 50%.
- ERAFP voted against resolutions relating to appropriation of profit for the following reasons:
  - Dividend pay out rate higher than sector average, large level of debt and higher than that of its peers, restructuring under way (7,000 people between 2016 and 2021 as part of a digitalisation plan)
  - Increase in dividends despite recording losses in 2017 and 2016, job cuts in 2017.

## ERAFP votes on executives' remuneration

ERAFP voted against 100% (versus 95% in 2017) of resolutions to approve executives' remuneration, for the following reasons:

- 1) Excessive remuneration(>100 x the minimum wage in the country, or >50 x the average salary of the company's employees),
- 2) Variable pay could exceed 300% of fixed pay,
- 3) Absence of ESG criteria or long-term remuneration
- 4) Lack of transparency

Note that many international companies did not submit executives' remuneration to approval by their shareholders this year. They represented 55% of the sample compared with 61% the previous year.

Note that some companies do not submit say on pay resolutions each year, but only when there are changes in the remuneration policy.

Shareholders had the possibility to express their views on the remuneration policy for executive officers at nine General Meetings in 2018, compared with seven in 2017.

### ERAFP voted against 48.5% of resolutions to appoint or reappoint directors:

- 1) The candidate was a man and less than 40% of the board members were women;
- 2) The candidate was not free from conflicts of interest, and less than half of the board members were free from conflicts of interest;
- 3) The candidate was not free from conflicts of interest, less than one third of the board members were free from conflicts of interest and the company was a controlled company;
- 4) The candidate held more than three directorships in major listed companies.
- 5) The candidate was the manager of a company and held more than one corporate office outside the group.

In 2018, ERAFP voted more frequently in favour of the appointment or reappointment of directors than in 2017 (51.5% vs. 31.1%).

This is attributable mainly to the large number of resolutions of this type on the agenda of Japanese General Meetings as the sample contained two Japanese companies this year versus one the previous year. Adapting the voting policy to conditions in the country can lead ERAFP to vote more in favour of these resolution than it does in other geographic regions.

In some rare cases, ERAFP voted in favour of appointments when the candidate did not satisfy all the ERAFP criteria, because their appointment would improve the composition of the board with regard to a particular problem. For example, ERAFP supported the appointment of female candidates holding more than three directorships when there were too few female board members.



| Governance indicators in the sample                | 2018      | 2017      | 2016      | 2015      | 2014      |
|--|-----------|-----------|-----------|-----------|-----------|
| Women board members                                | 29%       | 29%       | 29%       | 26%       | 25%       |
| Independence of boards                             | 65%       | 70%       | 63%       | 59%       | 64%       |
| Average remuneration of highest-paid executive (€) | 8,237,754 | 7,168,817 | 7,088,188 | 8,522,796 | 7,345,514 |

- Executive remuneration in the foreign sample is considerably higher than in the French sample and has risen since 2017.
- The percentage of women board members is on average lower for foreign companies than for their French counterparts but the ratio of independent members is higher.