

Europe's listed companies: their governance, shareholders and votes cast



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Over the past few years, corporate governance and shareholder engagement (also called stewardship) have become topics of increasing interest. Corporate governance refers to how a company is organised and governed (including the authority and powers granted to boards and shareholders). Not surprisingly, company structures vary significantly reflecting both different rules in various jurisdictions and the historical development of the companies themselves. Stewardship refers to the management of the ownership of interests in companies whether directly by asset owners or as asset managers acting on their behalf. Stewards of public companies engage with management to promote corporate governance practices that are consistent with encouraging long-term value creation of these companies and thus the ownership interest. Stewardship is a critical element of the corporate accountability chain, empowering shareholders to express their views and vote on issues relevant to the long-term success of a firm and to hold company boards to account.¹

While much has been written about both corporate governance and stewardship, most of the recent studies and reports focus on US companies where both ownership information and voting data are easily accessible. In contrast, relatively little on these topics has been written about non-US companies with the focus to date more on governance structures and ownership than on the voting data.² **This ViewPoint focuses on European listed companies, their governance and share ownership, and the votes cast by their main institutional shareholders.** We use MSCI Europe, the major pan-European stock index, as our reference for the universe of European listed companies.³

At the time of writing, this index contained 437 companies reflecting 85% of the free float adjusted market capitalisation of listed companies of the 16 European countries covered.⁴ Our findings highlight **the importance of differing national corporate governance and stewardship frameworks across Europe.** The Transparency Directive has harmonised certain major shareholder reporting requirements (also called threshold reporting) in the European Union (EU) but these were gold-plated by a number of Member States.⁵ Surprisingly, **the majority of investors (~ 61%) in the companies represented in MSCI Europe are either non-institutional owners or unidentified owners.**⁶ We found that 22% of the companies in the index have a parent or holding company, a family or foundation owner, a public sector owner, or a high percentage of individuals as owners. In addition, we found that **controlling shareholdings and differentiated voting rights amplify the votes of shareholder groups, typically non-institutional investors.** Fully 39% of ownership is unidentified primarily because their shareholdings fall below national reporting thresholds.

Public commentators are increasingly interested in how institutional investors such as banks, insurers, pension funds, and asset managers, carry out their stewardship responsibilities for the companies they hold – or in the case of asset managers, hold on behalf of their clients. We took a deeper dive look into the institutional ownership data which represents 39% of the investors investing in companies represented in the MSCI Europe index.⁷ The data shows the diversity in size, geography and investment approach of the largest 30 pan-European institutional investors investing in MSCI Europe companies. Fifteen of these institutional

The opinions expressed are as of February 2020 and may change as subsequent conditions vary.

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investors have their main headquarters in Europe, including Norway, Switzerland, Germany, UK, France, Sweden, and the Netherlands; the remainder in the US. Depending on their investment style, their investments are diversified across the companies represented in the index, or are more concentrated in a subset of the index. This phenomenon is illustrated by two Swedish institutional investors where one holds stock in 386 companies with a median stake of 0.26% per company, and another holds stock in only 50 companies with a median stake of 2.17% per company.

To gain a clearer picture of corporate governance and shareholder engagement in Europe, policymakers, researchers and corporate governance stakeholders would benefit from greater consistency in voting disclosures. While there is still a long way to go to achieve a comprehensive and consistent data set to work from, the reporting requirements of the revised EU Shareholder Rights Directive (SRD II) are expected to make an important contribution and enable further analysis in the forthcoming

Composition of the MSCI Europe index

- At the time of writing, the MSCI Europe index represented 437 large and medium-sized listed companies in Europe, across 16 countries, and ranging from \$3bn to \$322bn in value.
- Three countries – UK, France, and Germany – are home to 50% of these companies, which also represent 50% of the value of shares in the index. See Exhibit 1 on page 5 for country breakdown. In contrast, major economies such as Italy and Spain, taken together, represent less than 10% of the index on both measures, reflecting the smaller equity markets in these countries.

voting seasons.⁸ An industry-led standard reporting template would bring about greater consistency in the way asset managers disclose their voting records.

KEY FINDINGS (as of December 2019)

1 Ownership of companies in the MSCI Europe index

- **39% of investors in the companies listed in the MSCI Europe index are financial institutions**, including both those who own the assets, such as banks, insurers, pension funds, and asset managers holding assets on behalf of institutions and individuals (for example, through collective investment funds). We refer to these as institutional investors in this *ViewPoint*.
- **22% are non-institutional investors**, such as parent or holding companies, families, foundations, public sector, and strategic individuals.
- **39% are unidentified** – primarily because their shareholdings fall below national reporting thresholds.

Examining the data around European company ownership

A significant portion of data on share ownership of European companies was unavailable as a result of shareholders not having to report their holdings or benefitting from technical exemptions. The EU Transparency Directive sets the reporting of threshold at 5 % of the voting rights of the company. A number of EU Member States require lower thresholds.⁹ Nevertheless, the currently available data offers interesting insights, highlighted throughout this *ViewPoint* and summarised on pages 2 and 3.

- **The top 30 institutional investors investing in the companies in the MSCI Europe index account together for just over 20% of the value of shares (market capitalisation) in the index.**
 - These 30 shareholders are highly diversified by size, investment approach and geography.
 - The shares of the top 30 institutional investors are held across a spectrum of investment strategies, from investors following pure active investment strategies, to those offering a blend of active and index investment strategies to the more index-oriented strategies.
- **The balance of share ownership between institutional and non-institutional ownership varies country by country.** Institutional ownership is greater in Denmark, Finland, Germany, the Netherlands, Sweden, Switzerland and the UK. Non-institutional ownership is greater in Belgium, France, Italy, Norway and Spain.
- **A review of the five largest shareholders in some countries represented in the MSCI Europe index highlights further the degree of diversity in ownership across Europe.**
 - Institutional investors form the majority of the top 5 (3 out of 5) shareholders in both the Netherlands and Sweden. In contrast, they are a minority in France, where the top 5 owners include a public company, the government, and a family investor. In Belgium, only one institutional investor features in the national top 5 owners.

2

Controlling shareholders and differentiated voting rights

- Controlling shareholdings are a significant feature of listed companies in France, Germany, Sweden, and Italy, and exist primarily for legacy reasons. **38% of companies in the MSCI Europe index are controlled** either by majority shareholders, such as founders, parent companies or governments, (holding over 50% of voting rights) or by shareholders holding at least 30% of voting power.
 - This can have profound implications for minority shareholders, as companies with controlling shareholders may have reduced incentives to engage with those with a smaller share of votes.
- Differentiated voting rights (i.e. multiple share class and loyalty shares) do not adhere to the principle that one share should represent one vote. **28% of companies in the MSCI Europe index issue multiple share classes and / or loyalty shares.** These structures are most common in France and Sweden. However, they also exist in over 10% of the companies in Denmark, Finland, Germany, Italy, the Netherlands and Switzerland that are part of the MSCI Europe index.
- **A strong overlap between controlling shareholders and differentiated voting rights exists in France, Italy and Sweden. Taken alone or combined, the presence of controlling shareholders and differentiated voting rights amplifies the voting power and influence of those shareholder groups (such as foundations, strategic individuals, parent companies, national governments) which de facto or by law can benefit from these features, often to the detriment of minority shareholders, including institutional investors.**

3

Votes cast by institutional investors

- We examined the votes cast by the top 30 institutional investors in the companies in the MSCI Europe index, on both management and shareholder proposals, during the 2018-19 voting season.
- The total number of votes cast by each of the top 30 on **management proposals** varies significantly but support is rather consistent.

- The high level of support (above 80%) by institutional investors for management proposals is probably due to their routine nature (such as director elections, financial statement approvals, auditor appointment).
- This is broadly in line with observations on voting on management proposals in US companies.
- Voting on **shareholder proposals**¹⁰ in Europe differs significantly from that in the US: there are relatively fewer shareholder proposals in Europe (see box on page 11 for the differences between US and European shareholder proposals, including their binding vs. non-binding nature). In Europe, we observe relatively fewer shareholder proposals than in the US as well as greater consistency in levels of support among institutional investors.
 - During the 2018-19 voting season, for example, 88 shareholder proposals were submitted in Europe (of which 14 related to environmental or social matters) compared to the 444 submitted the same year in the ballot of the US companies in the Russell 3000 index (of which 165 on environmental or social matters).¹¹
 - In Europe, the level of support is both relatively consistent and low (within a range of 9% to 24% for those institutional investors voting on over half of the shareholder proposals) compared to the US, where votes in favour move significantly across institutional investors.
 - On average, institutional investors vote relatively more in favour of shareholder proposals than the proxy advisor recommendations. By contrast, in the US, proxy advisor voting recommendations in favour of shareholder proposals are greater than the support given by institutional investors.

Voting data in Europe and SRD II

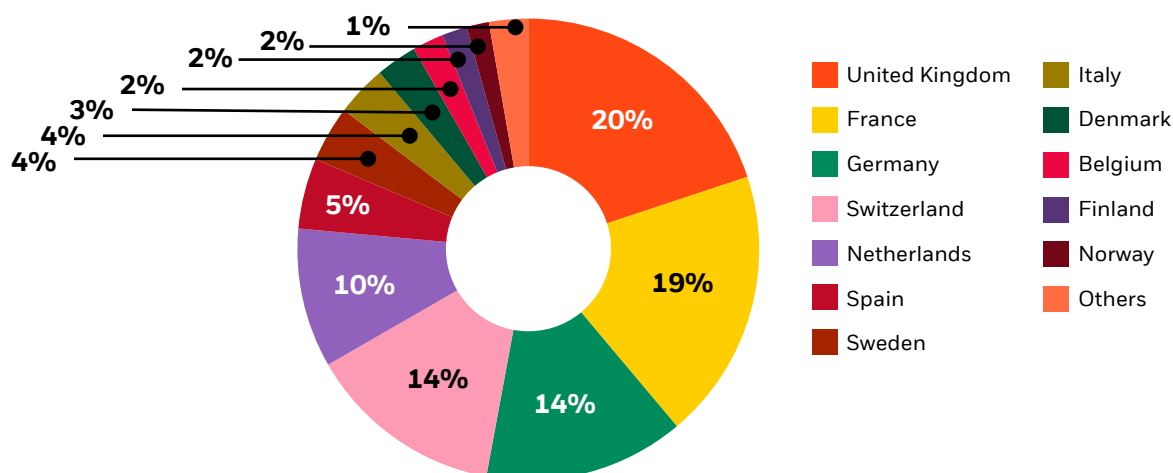
With the full implementation of SRD II, which entered into force in June 2019, asset managers, pension funds and insurers will disclose their engagement policy, voting records (apart from the “immaterial votes” per the Directive) and voting rationale for their “most significant” votes.¹² These new provisions represent progress and are expected to bring greater transparency to voting behaviour in Europe. However, since SRD II does not require a standardised format for the disclosure of votes, the comparability of shareholder voting data might remain challenging. An industry template for institutional investors to disclose their voting results would help show the data in a more standardised manner.

European corporate governance, a web of legacy features, national and European rules

European corporate governance takes place in an intricate framework of legacy practices, national regimes and European Union rules. There are as many Corporate Governance Codes in the EU as there are Member States. Governance structures vary: dual board structures (with management board and supervisory board) are prevalent in Germany as well as other Northern European countries and not necessarily in others. Directors are up for re-election on different timeframes (annually or less frequently).

Nomination committees are a body of the general meeting of shareholders rather than of the board of directors in Sweden. In Italy, the 'voto di lista' is a distinctive mechanism to facilitate shareholder involvement in the board nomination process. With SRD II being applied since June 2019, 'say-on-pay' has become a requirement across Member States. Substantial shareholder reporting rules, the existence of control and practice of differentiated voting rights are other important examples of national differences addressed in this *ViewPoint*.

Exhibit 1: MSCI Europe – country breakdown by market capitalisation



Source: Index constituents, market capitalisation, and country of domicile data sourced from FactSet as of 31 December 2019. MSCI Europe Index contained 437 constituents as of 31 December 2019. For more information on the construction of the MSCI Europe Index, please see the MSCI website: <https://www.msci.com/documents/10199/db217f4c-cc8c-4e21-9fac-60eb6a47faf0>. Data accessed on 16 February 2020.

Others include countries with a representation of less than 2% of total market cap in the index. Percentages are rounded to one significant digit.

Institutional investors

Institutional investors include both asset owners and asset managers. Asset owners are the economic owners of assets that are invested in the real economy, and include pension schemes, insurance companies, official institutions, banks, foundations, endowments, family offices, as well as individual investors. Behind asset owners are individuals, who either retired or are investing for their future financial well-being through, for example, pension funds, banks, or insurance companies. Asset owners can manage their money directly and / or outsource this function to external asset managers. Asset managers are professional investment firms that can be hired by asset owners to manage all or a portion of the asset owner's portfolio. Asset managers act as an agent on behalf of their clients, the asset owner.¹³

Exhibit 2 shows the top 30 institutional investors in the MSCI Europe Index. In terms of size, the top 30 hold just over 20% of the value (market capitalisation) of MSCI Europe, with the top 15 representing about 15%. Fifteen of these institutional investors are based in Europe, including Norway, Switzerland, Germany, UK, France, Sweden, and the Netherlands; the remainder are based in the US. **The top 30 include notable pan-European asset owners such as Norges Bank, APG and Alecta.**¹⁴ Asset managers, many of whom manage assets on behalf of a wide range of institutional and individual asset owners, feature prominently in the list of top 30 institutional investors. They are significantly diversified by size, investment approach, and geography. European, US and global asset managers are all represented across the top 30 institutional investors. Global asset managers are strongly represented in this list,

though in a notable portion of their holdings, the underlying asset owners may be European investors, such as insurance companies, pension funds, charities, family offices or public authorities.

Broader policy initiatives, such as the EU Capital Markets Union (CMU), which aim, in part, to promote greater equity investment by a range of institutional and individual investors may change the composition of the most prominent institutional ownership over time.

The shares that BlackRock, the largest asset manager measured by market cap of asset owner client holdings, manages on behalf of its clients account for 3.52% of the index, followed by Vanguard, Capital Group, Norges Bank, and MFS Investment Management at 2.45%, 1.82%, 1.82% and 0.692%, respectively. The vast majority of institutional investors have shareholdings under 0.60% of the MSCI Europe index, with the likely result that most companies in the index have a very diverse shareholder base, even within their institutional shareholder set. In addition, the top 30 institutional investors follow different investment approaches: many follow active strategies,

Asset managers hold shares and voting rights on behalf of their asset owner clients

The shareholdings of asset managers reflect the investments of their clients, the asset owners, who invest in the shares of a company typically through collective investment funds and / or separate accounts. An asset manager's shareholding in a particular company, as shown on the shareholder register, is simply the aggregate sum of its clients' investments in that company. In practice, the number of votes an asset manager has discretion to cast will be less than the number of voting rights it holds, as some asset owner clients elect to retain their voting discretion. In addition, some asset owners may instruct their asset manager how to vote on their behalf.

some follow more index-orientated strategies and others offer a combination of both active and index-orientated investment strategies

Exhibit 2: Top 30 institutional investors in companies in the MSCI Europe index

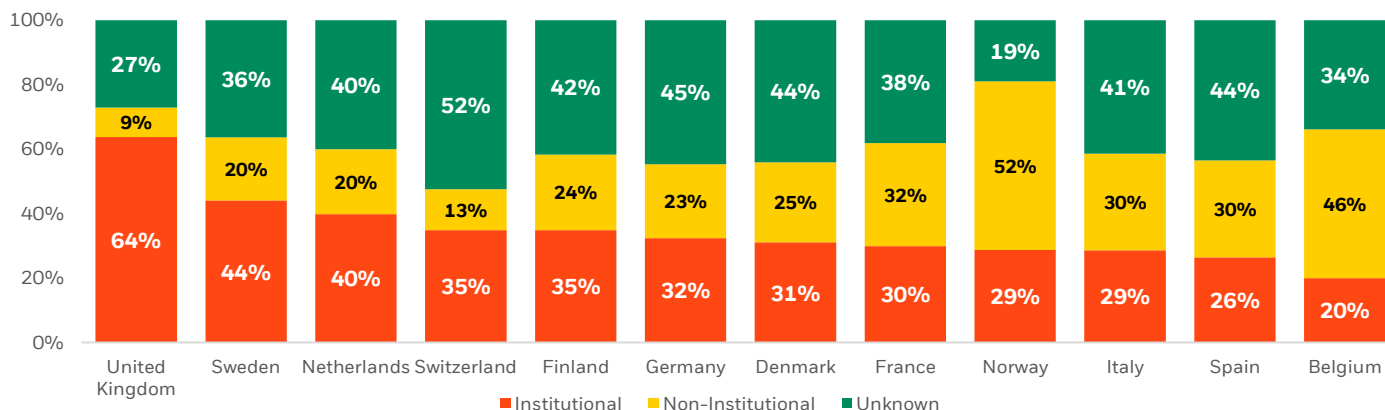
| Rank | Name | AUM in MSCI Europe (mil USD) | # of securities held | Median stake | % MSCI Europe market cap* | Main HQs |
|------|--|------------------------------|----------------------|--------------|---------------------------|-------------|
| 1 | BlackRock | \$414,687 | 435 | 2.72% | 3.52% | US |
| 2 | Vanguard | \$289,057 | 437 | 2.53% | 2.45% | US |
| 3 | Capital Group | \$214,757 | 205 | 1.84% | 1.82% | US |
| 4 | Norges Bank Investment Management | \$214,480 | 408 | 1.67% | 1.82% | Norway |
| 5 | MFS Investment Management | \$81,408 | 288 | 0.09% | 0.69% | US |
| 6 | State Street global Advisors (SSgA) | \$79,488 | 437 | 0.28% | 0.67% | US |
| 7 | UBS Investment Management | \$79,284 | 437 | 0.39% | 0.67% | Switzerland |
| 8 | Fidelity | \$71,274 | 301 | 0.34% | 0.61% | US |
| 9 | Invesco | \$70,701 | 362 | 0.38% | 0.60% | US |
| 10 | DWS | \$65,975 | 437 | 0.21% | 0.56% | Germany |
| 11 | Amundi | \$62,708 | 437 | 0.31% | 0.53% | France |
| 12 | Legal & General Investment Management (LGIM) | \$60,900 | 432 | 0.07% | 0.52% | UK |
| 13 | J.P. Morgan Asset Management | \$55,907 | 437 | 0.28% | 0.47% | US |
| 14 | Standard Life Aberdeen | \$50,803 | 431 | 0.09% | 0.43% | UK |
| 15 | Baillie Gifford | \$46,569 | 429 | 0.02% | 0.40% | UK |
| 16 | T. Rowe Price | \$45,457 | 437 | 0.00% | 0.39% | US |
| 17 | Wellington Management | \$43,722 | 311 | 0.06% | 0.37% | US |
| 18 | Allianz Global Investors | \$40,343 | 405 | 0.16% | 0.34% | Germany |
| 19 | Harris Associates | \$39,418 | 90 | 0.36% | 0.33% | US |
| 20 | Crédit Suisse | \$39,198 | 437 | 0.11% | 0.33% | Switzerland |
| 21 | Fidelity International | \$37,452 | 305 | 0.46% | 0.32% | UK |
| 22 | Geode Capital Management** | \$36,186 | 435 | 0.31% | 0.31% | US |
| 23 | Schroders | \$35,979 | 351 | 0.12% | 0.31% | UK |
| 24 | Dodge & Cox | \$31,095 | 31 | 1.99% | 0.26% | US |
| 25 | Lyxor | \$30,900 | 437 | 0.06% | 0.26% | France |
| 26 | APG | \$30,487 | 328 | 0.17% | 0.26% | Netherlands |
| 27 | Dimensional Fund Advisors | \$29,842 | 430 | 0.26% | 0.25% | US |
| 28 | Swedbank Robur | \$29,552 | 386 | 0.03% | 0.25% | Sweden |
| 29 | BNP Paribas Asset Management | \$29,044 | 430 | 0.09% | 0.25% | France |
| 30 | Alecta | \$27,801 | 50 | 2.16% | 0.24% | Sweden |

Source: FactSet ownership database as of 31 December 2019. Accessed 16 February 2020.

*Total market cap of all constituents of the MSCI Europe Index, not index-weighted. Total market cap of all index constituents is approx. 11,787,892 (mil USD).

**Fidelity index funds are sub-advised by Geode Capital Management, which spun off from Fidelity in 2003. Geode votes in accordance with policies that also have been approved by the funds' Board of Trustees

Exhibit 3: Institutional and non-institutional ownership breakdown of companies in MSCI Europe index



Source: FactSet ownership database as of 31 December 2019, accessed 16 February 2020.

Exhibit 3 records the balance between institutional and non-institutional ownership on a country by country basis. Non-institutional ownership of listed shares by parent or holding companies, families, foundations, public sector, and strategic individuals exceeds institutional ownership of listed shares by asset owners and asset managers in Belgium, Spain, Italy, France and Norway. In contrast, institutional ownership is greater than non-institutional ownership in the UK, Sweden, the Netherlands, Finland, Switzerland, Germany and Denmark.

Exhibit 4 lists the top 5 shareholders in the listed companies of Sweden, the Netherlands, France and Belgium part of the MSCI Europe index. It shows the diversity of share ownership patterns on a country-by-country level with Sweden and the Netherlands having the highest percentage of institutional share ownership in the EU and Belgium and France having much higher percentage of non-institutional share ownership. In the Netherlands and Sweden, institutional investors take the majority of the top 5 places. In contrast, they are a minority

Exhibit 4: Top 5 shareholders of Swedish, Dutch, French and Belgian listed companies of the MSCI Europe index

The top 5 shareholders in the **Swedish** listed companies represented in the MSCI Europe index

| | Investor name | Investor type | % of country market cap held |
|---|----------------|------------------------|------------------------------|
| 1 | Investor AB | Holding company | 3.96% |
| 2 | Swedbank Robur | Institutional investor | 3.94% |
| 3 | Alecta | Institutional investor | 3.13% |
| 4 | Stefan Persson | Strategic individual | 2.91% |
| 5 | Vanguard | Institutional investor | 2.59% |

The top 5 shareholders in the **Dutch** listed companies represented in the MSCI Europe index

| | Investor name | Investor type | % of country market cap held |
|---|------------------|------------------------|------------------------------|
| 1 | Naspers | Public company | 7.90% |
| 2 | BlackRock | Institutional investor | 3.93% |
| 3 | Capital | Institutional investor | 3.68% |
| 4 | Vanguard | Institutional investor | 2.70% |
| 5 | Heineken Holding | Public company | 2.62% |

The top 5 shareholders in the **French** listed companies represented in the MSCI Europe index

| | Investor name | Investor type | % of country market cap held |
|---|---------------------------|------------------------|------------------------------|
| 1 | Dior | Public company | 4.29% |
| 2 | Government of France | Government | 3.39% |
| 3 | BlackRock | Institutional investor | 2.50% |
| 4 | Bettencourt Meyers Family | Family | 2.39% |
| 5 | Vanguard | Institutional investor | 1.98% |

The top 5 shareholders in the **Belgian** listed companies represented in the MSCI Europe index

| | Investor name | Investor type | % of country market cap held |
|---|--------------------------------|------------------------|------------------------------|
| 1 | Stichting Anheuser Busch Inbev | Foundation / endowment | 19.78% |
| 2 | Eugénie Patri Sébastien SA | Private company | 3.94% |
| 3 | Pargesa Holding SA | Public company | 3.11% |
| 4 | KBC Ancora SCA | Public company | 2.13% |
| 5 | BlackRock | Institutional investor | 2.02% |

Source: FactSet ownership database as of 31 December 2019. Percentage of country market cap held refers to the size of the investor's holding(s) of the MSCI Europe constituent(s) headquartered in the country in question, as a percentage of the total market cap of the country within the MSCI Europe index.

in France, where the top 5 owners include a public company, the Government, and a family investor. In Belgium, only one institutional investor features in the top 5 owners of the national companies in the MSCI Europe index.

Corporate governance and controlling shareholders

Controlling shareholders are a significant feature of the ownership structure of European companies with important implications for the structure of the board and the engagement between companies and their shareholders.

According to the MSCI data definition, a controlling shareholder is either a single shareholder or a group of shareholders with a majority (of more than 50% of total voting rights) or with ‘de facto control’, that is more than 30% of voting rights or the ability to elect more than half the members of the board.¹⁵ **Exhibit 5 shows the scope of controlled companies in the MSCI Europe Index. 24% of companies in the MSCI Europe are controlled with a majority. A further 14% have a shareholding of 30% or more which we used as a proxy for ‘de facto control’.**

Companies with (a) controlling shareholder(s) or shareholders with de facto control may have reduced incentives to engage with their minority shareholders as the voting outcome at their annual general meetings (AGMs)¹⁶ will be determined by the voting decision of their controlling shareholder(s). In contrast, companies with no controlling ownership structure are more likely to have a dispersed pool of shareholders with no concentration of voting power, and therefore more likely to engage with a broader group of shareholders.

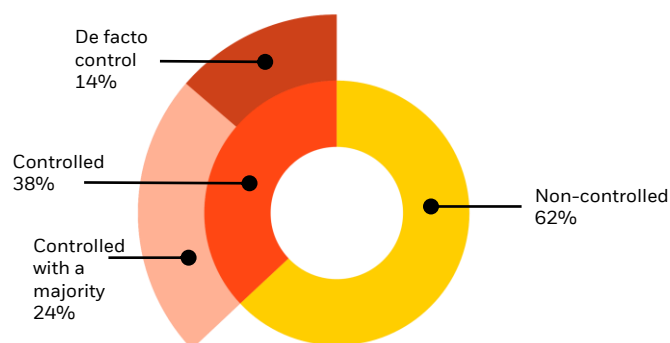
Who exactly are the controlling shareholders?

Looking at the controlled companies in the MSCI Europe, their controlling shareholders with a majority of 50% of voting rights are non-institutional investors, such as individuals, governments, parent companies (public or holding company), and foundations. It is worth noting that controlling shareholders in European companies mostly exist for historical or strategic reasons: a listed company which started out as a family business, and where family members have kept a strong hold of shares as individuals or through a foundation; a government remaining an important shareholder following the privatisation of a company; and a parent company holding a controlling interest in its listed subsidiaries.

In practice, not all minority shareholders cast their votes at AGMs – this increases the voting power of controlling shareholders further, along with all the shareholders that do vote. On an examined sample of the 47 companies included in the MSCI Europe index, (our data vendor, Proxy Insight, was able to collect these statistics for these 47 companies only), we observed that the average voting stock instructed was 73% within a wider range of 45% to 89% of votes instructed.

National corporate governance regimes also affect the power of controlling shareholders. For example, the new German Corporate Governance Code has introduced higher expectations in relation to supervisory board independence levels for non-controlled companies than for the supervisory boards of controlled companies. The new Code expects the supervisory board of controlled companies to have two members who are independent from the controlling shareholder (and in some cases only one). By contrast, for non-controlled companies, more than half of the shareholder representatives should be independent from the company or the management board.¹⁷

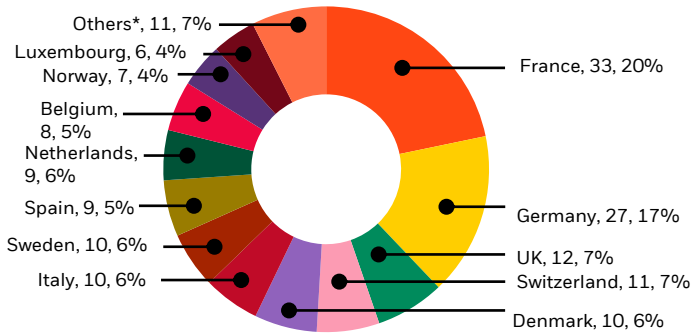
Exhibit 5: Controlled and non-controlled companies in the MSCI Europe index



Source: MSCI ESG Manager screens for controlling shareholders and their voting rights, using the MSCI Europe index as of 31 December 2019. Data accessed 16 February 2020. Numbers have been rounded to the nearest digit.

Exhibit 6 overleaf shows the country breakdown of controlled companies. Controlled companies are particularly present in some of the largest countries in the index – France and Germany – as well as in Sweden and Italy.

Exhibit 6: Country breakdown of companies with controlling shareholders in the MSCI Europe index



Annotations describe the country of incorporation, the number of controlled companies in the given country and the percentages show the portion of all controlled companies in the MSCI Europe by country.

Source: MSCI ESG Manager screen for controlling shareholders and country data, using the MSCI Europe index as of 31 December 2019. Data accessed 16 February 2020. Others* are Austria, Finland, Portugal, Ireland and only 5 controlled entities or less have been identified in each of these countries.

Differentiated voting rights

Differentiated voting rights – i.e. multiple share classes or loyalty shares – do not adhere to the principle that one share should represent one vote, and as such provide some shareholders with voting rights that are disproportionate to the number of shares they hold.¹⁸ **Exhibit 7 highlights that 26% of companies in the MSCI Europe index issue either multiple share classes or loyalty shares.**

While we understand the intended benefits of differentiated voting rights (such as retaining special rights to founders), they can lead to weakened corporate governance and stewardship where they expose shareholders who are not benefitting from these rights, including individual and institutional shareholders, to the dilution of their voting rights and to management entrenchment.¹⁹ **Table 1 on the next page lists the countries in Europe that permit multiple share classes and /or loyalty shares.**

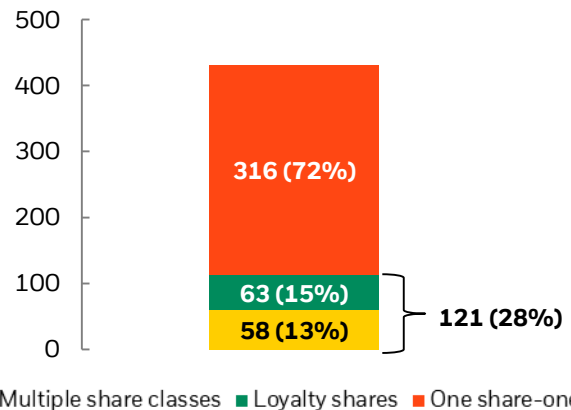
Differentiated share classes are common in Sweden (a feature of 67% of Swedish companies in the MSCI Europe index), as are loyalty shares in France (72% of French companies in the index offer loyalty shares).

In addition, more than 10% of companies in Denmark, Finland, Germany, Italy, the Netherlands and Switzerland that are part of the MSCI Europe index have either differentiated shares or loyalty shares.

Issuing multiple share classes provides certain shareholder groups with more voting rights or less voting rights than their economic ownership would give, or even no voting rights at all. Loyalty shares are mechanisms that aim to reward certain shareholders with additional voting rights when they have held the shares for a given period of time. In the French case, the legal and operational conditions underpinning loyalty shares make it difficult for both long-term individual shareholders and long-term pan-European institutional investors to be entitled to receive them.²⁰

When companies have controlling shareholders, and issue shares with differentiated voting rights, the controlling shareholder may, in addition to having, for example, a third or more of the votes, benefit from loyalty or differentiated share classes, furthering amplifying its voting power and ability to influence the outcomes of votes at general meetings.²¹ Looking at the country breakdown of controlled companies (Exhibit 5) and the countries where loyalty shares and multiple share classes exist (Table 1), we observe a strong overlap between the two features in France, Italy, and Sweden.

Exhibit 7: The application of ‘one share one vote’ principle and differentiated voting rights in companies in the MSCI Europe index



Source: MSCI ESG Manager screen for multiple share classes and single share classes with differentiated voting rights, using the MSCI Europe index as of 31 December 2019. Data accessed 16 February 2020. Figures have been rounded to the nearest digit.

Table 1. The legal regimes and presence of multiple share classes and loyalty shares in Europe

| Country | Multiple share class | Loyalty shares | % of national companies with this feature in MSCI Europe (source: screen from MSCI ESG Manager) |
|----------------|----------------------|----------------|---|
| Belgium | Allowed | Not allowed | 1 out of the 11 (9%) of the Belgian companies in MSCI Europe |
| Denmark | Allowed | Not allowed | 6 out of 17 (35%) Danish companies in MSCI Europe |
| Finland | Allowed | Allowed | 3 out of 13 (23%) Finnish companies in MSCI Europe |
| France | Allowed | Allowed | 52 out of the 72 (72%) of French companies in MSCI Europe |
| Germany | Allowed | Not allowed | 10 out of the 58 (17%) German companies in MSCI Europe |
| Italy | Allowed | Allowed | 4 out of the 20 (20%) of the Italian companies in MSCI Europe |
| Netherlands | Allowed | Not allowed | 7 out of the 25 (28%) of the Dutch companies in MSCI Europe |
| Spain | Allowed | Not allowed | 1 out of the 22 (5%) of the Spanish companies in MSCI Europe |
| Sweden | Allowed | Allowed | 20 out of the 30 (67%) of the Swedish companies in MSCI Europe |
| Switzerland | Allowed | Allowed | 9 out of the 42 (21%) of the Swiss companies in MSCI Europe |
| United Kingdom | Allowed | Allowed | 5 out of the 90 (6%) of UK companies in MSCI Europe |

Source: OECD Corporate Governance Factbook 2019, table 3.3., pp. 83-85 <https://www.oecd.org/corporate/Corporate-Governance-Factbook.pdf>, and ISS.

Allowed = specifically allowed by law or regulation

Not allowed = specifically prohibited by law or regulation, or, absence of a legal requirement

MSCI ESG Manager screen for multiple share classes, single share classes with multiple voting rights and ownership with constituents as of 31 December 2019. Data accessed 16 February 2020.

Votes cast by institutional shareholders

The challenges of incomplete and inconsistent data, highlighted earlier, are important to bear in mind when conducting any analysis of voting—especially as the available information for some institutional investors may appear limited, even for those that are publishing voting records. Our data source, Proxy Insight, draws on known publicly available voting records, i.e. the investor’s website, the US Securities and Exchange Commission N-PX regulatory filings²² and responses to the US Freedom of Information Act requests (when available). The level of detail, format and frequency on institutional investors’ websites can vary significantly, and institutions are subject to disclose using N-PX filing only for US-registered investment funds. As such, in the absence of a European industry reporting template, full representation of the voting data for EU-based institutional investors that have no or limited US registered funds investing in European equities, is a challenge.

Recognising these limitations, we examined the votes cast by the top 30 institutional investors for both management and shareholder proposals. **Exhibit 8 shows our analysis of the roughly 7700 management proposals from companies in the MSCI Europe Index in 2018-19.** The variability in the absolute number of votes cast by each institutional investor is striking. Almost 50% voted on less than half of the management proposals. This may be explained in part by the number of companies they hold (which varies significantly, per exhibit 2). Relatively few investors voted on more than 80% of management proposals (BlackRock²³, Vanguard, Norges Bank, SSgA, LGIM, JP Morgan Asset Management, T. Rowe Price, Allianz Global Investors). An important common thread across institutional investors is the high level of support for management proposals and relative alignment with the proxy advisors’ voting recommendations – this is likely due to the fact that many management proposals deal with routine matters such as financial statement approvals, (re-)election of board members, and auditor (re-)appointments.

Exhibit 8. Vote of institutional investors on management proposals of MSCI Europe, 2018-19 voting season

| Rank | Investor name | Total votes | % of proposals voted on | 'For' count | 'For' % | ISS match % | Glass Lewis match % |
|------|-----------------------------------|-------------|-------------------------|-------------|---------|-------------|---------------------|
| 1 | BlackRock | 7,214 | 90% | 6,535 | 91% | 92% | 94% |
| 2 | Vanguard | 7,165 | 89% | 6,838 | 95% | 94% | 95% |
| 3 | Capital Group | 3,325 | 41% | 3,109 | 94% | 88% | 91% |
| 4 | Norges Bank Investment Management | 7,212 | 90% | 6,804 | 94% | 94% | 95% |
| 5 | MFS Investment Management | 2,807 | 35% | 2,662 | 95% | 97% | 97% |
| 6 | SSgA | 7,846 | 98% | 6,948 | 89% | 93% | 92% |
| 7 | UBS Investment Management | 6,345 | 79% | 5,464 | 86% | 94% | 92% |
| 8 | Fidelity | 3,645 | 45% | 3,475 | 95% | 94% | 97% |
| 9 | Invesco | 3,285 | 41% | 3,026 | 92% | 98% | 96% |
| 10 | DWS | 3,266 | 41% | 2,598 | 80% | 88% | 85% |
| 11 | Amundi | - | - | - | - | - | - |
| 12 | LGIM | 6,975 | 87% | 6,016 | 86% | 96% | 92% |
| 13 | J.P. Morgan Asset Management | 6,519 | 81% | 5,956 | 91% | 99% | 95% |
| 14 | Standard Life Aberdeen | 1,380 | 17% | 1,222 | 89% | 93% | 91% |
| 15 | Baillie Gifford | 1,446 | 18% | 1,369 | 95% | 89% | 92% |
| 16 | T. Rowe Price | 7,308 | 91% | 6,629 | 91% | 98% | 95% |
| 17 | Wellington Management | 3,378 | 42% | 3,167 | 94% | 93% | 96% |
| 18 | Allianz Global Investors | 6,492 | 81% | 5,462 | 84% | 92% | 90% |
| 19 | Harris Associates | 981 | 12% | 964 | 98% | 93% | 93% |
| 20 | Crédit Suisse | 186 | 2% | 180 | 97% | 84% | 99% |
| 21 | Fidelity International | 5,446 | 68% | 5,035 | 92% | 92% | 93% |
| 22 | Geode Capital Management** | 5,448 | 68% | 4,974 | 91% | 98% | 95% |
| 23 | Schroders | 6,363 | 79% | 5,740 | 90% | 96% | 94% |
| 24 | Dodge & Cox | 562 | 7% | 555 | 99% | 95% | 96% |
| 25 | Lyxor | 54 | 1% | 45 | 83% | 94% | 94% |
| 26 | APG | 5,582 | 70% | 4,670 | 84% | 91% | 88% |
| 27 | Dimensional Fund Advisors | 5,579 | 69% | 4,996 | 90% | 100% | 95% |
| 28 | Swedbank Robur | 619 | 8% | 568 | 92% | 91% | 92% |
| 29 | BNP Paribas Asset Management | 4,564 | 57% | 3,729 | 82% | 89% | 87% |
| 30 | Alecta | 19 | - | 19 | 100% | 100% | 100% |
| - | ISS | 7,717 | 96% | 6,916 | 90% | 100% | 94% |
| - | Glass Lewis | 6,314 | 79% | 5,975 | 95% | 94% | 100% |

Source of voting records: Proxy Insight based on public records (investor website, SEC N-PX filings and responses to Freedom of Information Act requests) for the reporting period of 1 July 2018 through 30 June 2019. Total universe includes 7,689 proposals.

Amundi discloses voting statistics on its website. Having not disclosed their voting data for 2019 at the time of writing this report, our data vendor, Proxy Insight, was unable to include Amundi's voting statistics in the dataset.

**Fidelity index funds are sub-advised by Geode Capital Management, which spun off from Fidelity in 2003. Geode votes in accordance with policies that also have been approved by the Fidelity funds' Board of Trustees

Shareholder proposals in Europe and in the US

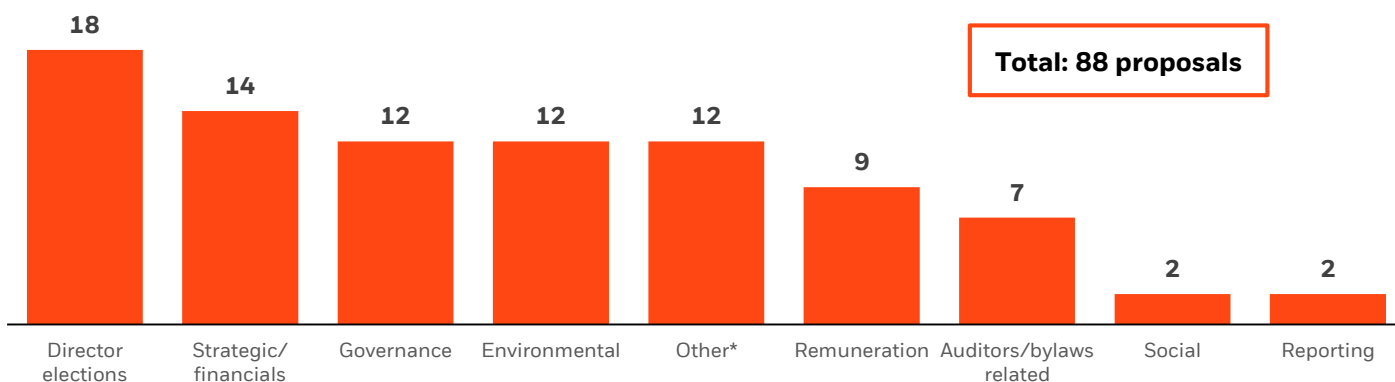
Shareholder proposals are put forward by the shareholders of the company at its AGM. US and European shareholders appear to have a different approach towards shareholder proposals. We count about 444 submitted in the 2018-19 season for companies in the Russell 3000 index (as a sample of the US stock market) accounting for just under 2% of the overall ballot items in the US.²⁴ For the same year in Europe, 88 shareholder proposals were submitted at the AGM of MSCI Europe companies, when we exclude German counter motions and non-controversial proposals put forward through the Italian 'voto di lista'. European shareholder proposals represent about 1.1% of the overall ballot. Shareholder proposals in the US are non-binding while they are binding in most of Europe.

A number of reasons can explain the relatively limited use of shareholder proposals in Europe. European shareholders, typically, engage to a greater extent directly with the board to share their engagement priorities or concerns ahead of the general meeting. Other reasons preventing shareholders to use shareholder proposals as a mechanism to engage include ownership structures with controlling shareholders giving the latter great voting power, and the need for relatively high level of holdings or voting right to file a shareholder proposal (set at 5% in certain European countries), as set out in national rules. Finally, mechanisms similar to shareholder proposals already exist in certain European countries such as shareholder counter motions in Germany and Italian 'voto di lista' resolutions.

While shareholder proposals seem to be primarily a US practice (see box on the next page), 88 were filed for companies in the MSCI Europe. **Topics of shareholder proposals are shown in Exhibit 9, and range from governance structure, finance, director elections, to**

strategic matters, remuneration, environmental and social issues. 14 of the 88 shareholder proposals in Europe related to environmental and social issues, compared to 165 of the 444 shareholder proposals in the US.

Exhibit 9: Shareholder proposals on ballot in MSCI Europe companies, 2018-19 voting season



Sources: Shareholder proposal analysis data from Proxy Insight for the reporting period of 1 July 2018 through 30 June 2019.

Methodology: Includes all shareholder proposals with the exception of German counter motions in Germany and non-contentious director elections and auditors related items via the Italian 'voto di lista' mechanism.

*"Other" refers to ad-hoc proposals around litigation or editorial changes in corporate governance report.

Exhibit 10 shows our voting analysis by institutional investors on shareholder proposals over the 2018–2019 voting season. We present the voting record (where available) of institutional investors that have voted over half of the shareholder proposals. Overall, most institutional investors show low and relatively consistent levels of support for shareholder proposals in Europe,

where support is within the range of 9% and 24%. Institutional investors' support varies more significantly in the US.²⁵ This contrast is even more marked for proxy advisor voting recommendations: ISS and Glass Lewis in Europe recommended support for 11% and 27% of shareholder proposals respectively compared with 75% and 47% respectively for shareholder proposals in the US.²⁶

Exhibit 10. Vote of institutional investors on shareholder proposals of MSCI Europe companies, 2018–19 voting season

| Investor name | Total votes | % of proposals voted on | 'For' count | 'For' % | ISS match % | Glass Lewis match % |
|-----------------------------------|-------------|-------------------------|-------------|---------|-------------|---------------------|
| BlackRock | 61 | 76% | 10 | 16% | 97% | 92% |
| Vanguard | 63 | 79% | 8 | 13% | 95% | 90% |
| Norges Bank Investment Management | 67 | 84% | 10 | 15% | 95% | 91% |
| SSgA | 76 | 95% | 14 | 18% | 84% | 73% |
| LGIM | 69 | 86% | 9 | 13% | 99% | 89% |
| T. Rowe Price | 70 | 88% | 6 | 9% | 97% | 83% |
| Wellington Management | 50 | 63% | 9 | 18% | 94% | 94% |
| Allianz Global Investors | 49 | 61% | 7 | 14% | 96% | 89% |
| Schroders | 58 | 73% | 14 | 24% | 84% | 83% |
| ISS | 73 | 91% | 8 | 11% | 100% | 88% |
| Glass Lewis | 55 | 69% | 15 | 27% | 88% | 100% |

Source of voting records: Proxy Insight based on public records (investor website, the SEC N-PX filings and responses to Freedom of Information Act requests, for the reporting period of 1 July 2018 through 30 June 2019). Total universe includes 88 proposals.

Conclusion

Corporate governance in Europe is an intricate web of legacy features, company, national and regional rules. Institutional investors are only one piece of a wider jigsaw of who holds the shares and votes at the general meetings of Europe's public companies. Institutional investors are diverse by their size, investment approach, and geography. Over 39% of investors in the companies in the MSCI Europe index are currently unidentified and voting data for

many European institutional investors is limited or difficult to compare. Greater consistency of the data displayed would help offer a clearer picture of voting practices. We expect the implementation of SRD II will make a significant contribution to closing some of the current data gaps. Developing an industry standard template for the disclosure of institutional investors' voting records would further enrich our analysis of corporate governance and stewardship in Europe.

Endnotes

1. Source: BlackRock, Revised and Extended Remarks by Barbara Novick at FTC Hearing #8: "Competition and Consumer Protection in the 21st Century Panel Discussion on Institutional Investors, Diversification, and Corporate Governance", January 2018. <https://www.blackrock.com/corporate/literature/publication/remarks-barbara-novick-ftc-hearing-8-competition-consumer-protection-21st-century-120618.pdf>
2. See, for example, OECD, "Owners of the World's Listed Companies", OECD Capital Markets Series, October 2019: <https://www.oecd.org/corporate/ca/Owners-of-the-Worlds-Listed-Companies.pdf>; or the OECD 2019 Corporate Governance Factbook: <http://www.oecd.org/daf/ca/Corporate-Governance-Factbook.pdf>; European national authorities' reports on corporate governance include Italian Consob's annual report on corporate governance of Italian listed companies (available on the Consob's website both in Italian and English, <http://www.consob.it/web/consob-and-its-activities/rcg2018>) or the French AMF corporate governance related publications (available on the AMF website both in French and English, <https://amf-france.org/Publications/Rapports-etudes-et-analyses/Gouvernement-d-entreprise?langSwitch=true>).
3. Index constituents data sourced from FactSet as of as of 31 December 2019. MSCI Europe Index contained 437 constituents as of 31 December 2019. For more information on the construction of the MSCI Europe Index, please see the MSCI website: <https://www.msci.com/documents/10199/db217f4c-cc8c-4e21-9fac-60eb6a47faf0>. Data accessed on 16 February 2020.
4. MSCI Europe uses free float adjusted market capitalisation, which refers to the value of shares available in the market, and excludes those considered to be locked in, such as held by founders, governments or promoters.
5. The EU Transparency Directive (2013/50/EU) defines share ownership thresholds reporting requirements as the obligation of a shareowner to disclose to its national competent authority and / or investee company its holding of the company above certain thresholds. The threshold set at the EU level is 5%, several Member States have lowered the threshold as part of their national implementation of the Directive. For example, the threshold for reporting shareholdings in Germany, the Netherlands and the UK is 3% of outstanding shares carrying voting rights. The revised Shareholder Rights Directive gives the right to companies to identify their shareholders holding more than 0.5% of shares or voting rights. Companies will receive this information directly. The Directive does not specify whether the list of a company's shareholders should be made public or stay private. <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013L0050&from=EN>
6. Source: FactSet ownership database as of 31 December 2019. Accessed 16 February 2020. Shareholders are classified by FactSet as 'institutional investor' and 'non-institutional investor' with several 'non-institutional investor' subcategories ranging from strategic individuals to governments. Company shareholder information is then aggregated by BlackRock according to these FactSet classifications across all constituent companies in the index.
7. Ibid 6.
8. SRD II started applying in June 2019. Directive (EU) 017/828 of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017L0828&from=EN>
9. See footnote 5.
10. Shareholder proposals are proposals submitted by shareholders as part of a company's upcoming general meeting. In Europe, the legal requirements to submit shareholder proposals vary country by country.
11. Source: BlackRock, "Revised and Extended Remarks at Harvard Roundtable on Corporate Governance Keynote Address: "The Goldilocks Dilemma"", November 2019, available at <https://www.blackrock.com/corporate/literature/publication/barbara-novick-remarks-harvard-roundtable-corporate-governance-the-goldilocks-dilemma-110619.pdf>
12. See footnote 8.
13. BlackRock ViewPoint, "The Investment Stewardship Ecosystem", 2018, <https://www.blackrock.com/corporate/literature/whitepaper/viewpoint-investment-stewardship-ecosystem-july-2018.pdf>
14. For source and methodology, see footnote 6.
15. Control can be exerted in different ways than those stated in this ViewPoint. The common definition of 'control' is in the International Financial Reporting Standards (commonly called IFRS) 10 Consolidated Financial Statements. For data integrity reasons, we followed the categorisation of our data vendor.
16. An annual general meeting is the gathering of a company's shareholders on a yearly basis. At an AGM, the directors of the company present an annual report informing the company's shareholders about its performance and strategy.
17. Regierungskommission Deutscher Corporate Governance Kodex, 2020 German Corporate Governance Code, C.7 and C.9 paragraphs: <https://www.dcgk.de/files/dcgk/usercontent/de/download/kodex/DCGK%202020%20Vorlage%20BMJV%20FINAL.pdf>
18. See BlackRock commentary on differentiated voting rights: <https://www.blackrock.com/corporate/literature/whitepaper/blackrock-the-debate-on-differentiated-voting-rights.pdf>
19. In France, the intended benefits of the loyalty shares or double voting rights introduced with the Loi Florange were to strengthen the companies' long-term shareholder base by granting double voting rights to a share held by a shareholder for over two years. Academic research suggests that this introduction has not changed the duration of holdings by shareholders: Becht et al., Loyalty Shares with Tenure Voting – A Coasian Bargain? Evidence from the Loi Florange Experiment, April 2018, https://www.researchgate.net/profile/Anete_Pajuste/publication/325190518_Loyalty_Shares_with_Tenure_Voting_-_A_Coasian_Bargain_Evidence_from_the_Loi_Florange_Experiment/links/5cbdf8e4585156cd7ab4efe/Loyalty-Shares-with-Tenure-Voting-A-Coasian-Bargain-Evidence-from-the-Loi-Florange-Experiment.pdf?origin=publication_detail
20. According to Loi Florange, shareholders must fulfil two conditions to receive double voting rights. First, they must be named directly on the shareholder registrar ("inscrit au nominative pur"). Second, they must hold the share for over two years. In practice, both individual and cross-border institutional investors do not meet the first condition as other institutions are or must be registered on the shareholder registrar on their behalf. In the case of cross-border institutional investors, local custodians are registered with no tracking of the length the shares have been held.
21. Differentiated voting rights are also called 'control-enhancing mechanisms'. See for example Mosca C. (2019), "Should shareholders be rewarded for loyalty? European experiments on the wedge between tenured voting and takeover law", Michigan Business & Entrepreneurial Law Review, <https://repository.law.umich.edu/cgi/viewcontent.cgi?article=1085&context=mbelr>
22. N-PX filings are SEC-regulated standardised voting disclosures that provide a consistent data source of voting records. They must be completed by US-registered mutual funds for all companies held in the funds, including for those companies based outside the US.
23. BlackRock voted at approximately 90% of general meetings in EMEA and APAC. Of the remaining, 8% were uninstructed due to shareblocking and 2% were unexecuted due to impediments such as ballots received post cut-off date or post meeting date, or other restrictions like in-person attendance or powers of attorney being required in order to vote.
24. See footnote 11.
25. See footnote 11.
26. See footnote 11.

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