

# EXERCISE OF VOTING RIGHTS REPORT

MIROVA

2016



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[www.mirova.com](http://www.mirova.com)

# EXECUTIVE SUMMARY

In compliance with Article 314-101 of the FMA's General Regulations, Mirova has produced this "Exercise of Voting Rights Report" document, describing how it has exercised its voting rights as shareholder of the UCITS/ AIF1 it manages.

In accordance with Article 314-101 of the FMA's General Regulations, exercising its voting rights is an integral part of Mirova's socially responsible investment strategy.

Mirova believes that aligning its voting policy principles with its investment strategy is essential for promoting value creation for its clients.



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## FORWARD

Mirova believes that aligning its voting policy principles<sup>1</sup> with its investment strategy is essential for promoting value creation for its clients. This presupposes defining the principles of good governance that Mirova upholds, particularly in order to take into account the long-term challenges that companies are facing, above all environmental and social issues. In order to better associate environmental and social issues with strategic decisions, a more balanced distribution of power between the various stakeholders is needed. This organisation favours a partnership view of corporate governance. Redefining shareholders' roles and placing responsibility for decisions on long-term issues back in the hands of the Board of directors or the Supervisory Board are key issues to be considered during this process.

In this context, Mirova began an in-depth critical reflection on conventional governance issues in 2015, aiming to establish a model more in line with an entrepreneurial and sustainable view of companies. This reflection has resulted in initiating a new voting policy in firm support of a new governance model. This model is based on four major pillars:

- the establishment of long-term shareholding, capable of supporting sustainable company growth;
- the creation of a Board that considers the companies' stakeholders in a balanced way and takes CSR issues into account in its strategic planning;
- the balanced and fair distribution of value created between the various stakeholders, and the consideration of environmental and social issues in incentive mechanisms and alignment of interests;
- the transparency and quality of financial and extra-financial information provided, with the establishment of a reporting procedure that integrates sustainability issues.

Given the strength of the currently prevailing shareholder governance model, effectively applying this policy and, more generally, diffusing these good practices among the companies that Mirova invests in will necessarily be a long process. Mirova has consequently decided to simultaneously deploy an in-depth engagement strategy for these issues so as to encourage companies to progressively take them into account. This strategy is developed in a variety of ways: through direct dialogue, cooperative engagement, and targeted advocacy.

Mirova is also convinced of the need to create a theoretical framework for developing new models of governance which include environmental and social issues. Mirova has therefore decided to support academic research, thus joining the Mines ParisTech Chair *Théorie de l'entreprise. Modèles de gouvernance et création collective* (Theory of companies. Models of governance and collaborative creation) in 2015. This strategic cooperation will be crucial for developing new ways of thinking about developing viable, value-creating companies for all stakeholders.

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<sup>1</sup> [Access Mirova's Voting Policy](#)

## GENERAL SCOPE

### 1. Organization

The exercise of voting rights is structured around two distinct sets of activities aimed at ensuring that this process is in the best interests of unit holders:

- **Resolution analysis** is conducted by the Voting and Governance division of Mirova's responsible investment research department, a team of 11 analysts specialising in environmental, social and governance issues.

Voting decisions are the responsibility of the voting committee that consists of Mirova's Chief Executive Officer and the Head of Responsible Investment Research. Fund managers and extra-financial analysts may be invited to take part in committee discussions according to the issues covered.

- **Exercise of voting rights** is performed by Natixis AM's Middle Office department, according to instructions provided by Mirova as part of a service provider agreement.

### 2. Details on General Meeting Votes

Mirova now has a platform available on its website that details all Mirova votes on resolutions presented at the general meetings of companies held in its voting funds (not including dedicated funds). This platform is available to the public, in compliance with the FMA's regulations (Article 314-100).

[>> Access the platform](#)

## MIROVA: EXERCISE OF VOTING RIGHTS 2016

### 3. 2016 Voting Perimeter

In accordance with AFM regulations regarding the exercise of voting rights of asset management companies (General Regulations Article 314-101) and following the principles defined in its voting policy, Mirova has exercised its voting rights as a shareholder of the UCITS and AIF it manages.

The 2016 voting perimeter covered **215** assets held in 16 UCITS and AIF,<sup>2</sup> all of which are managed by Mirova.

Within this voting perimeter, **232** general meetings (GM) were held in 2016, and Mirova exercised its voting rights at **230** of them, for a participation rate of **99%**.

Mirova did not exercise its voting rights at **2** general meetings due to technical problems such as fund migration into proxy systems or administrative systems and validity of power of attorney.

<sup>2</sup>This perimeter covers 6 dedicated funds and 10 open funds (Impact Es Actions Europe, Insertion Emplois Dynamique, Mirova Euro Sustainable Equity, Mirova Europe Environmental Equity Fund Mirova Europe Real Estate Securities Fund, Mirova Europe Sustainable Equity, Mirova Global Sustainable Equity, Mirova US Global Sustainable Equity Fund, Mirova Global Transition Energy Equity Fund, Mirova Global Water & Agriculture Equity Fund).

## Geographic Distribution of Voting Perimeter 2016

	No. of companies	%
Americas <sup>3</sup>	61	28%
Asia <sup>4</sup>	11	5%
Europe <sup>5</sup>	143	67%
Total	215	100%

## 4. General Statistics

Out of **230** general meetings that were cast and confirmed, Mirova voted on **3396** resolutions.

## Distribution of Votes by Geographic Region

	No. of resolutions	%
Americas <sup>6</sup>	708	21%
Asia	137	4%
Europe	2551	75%

Of the 3396 resolutions:

- Mirova voted for **2362** resolutions (**70%**)
- Mirova voted against **789** resolutions (**23%**)
- Mirova abstained on **245** resolutions (**7%**).

Of the **3396** resolutions submitted to a vote, **3334** were proposed by company management or Boards of directors or supervisory boards. Mirova voted against **772** of these resolutions (**23%**) and abstained on **243** of these resolutions (**7%**).

Out of the **62** shareholder resolutions proposed, Mirova supported **43** (**69%**).

Mirova cast at least one vote 'against' at **219** general meetings, i.e. **95%** of those at which votes were cast.

<sup>3</sup>The American region comprises 4 countries including the United States and Canada.

<sup>4</sup>The Asian region comprises 5 countries, including China, Japan, and Singapore.

<sup>5</sup> The **European** region comprises 14 countries (Austria, Belgium, Denmark, France, Finland, Germany, Ireland, Italy, Jersey, the Netherlands, Norway, Spain, Switzerland, and the United Kingdom)

## 5. Analysis of Vote Results by Geographic Region

Our average opposition rate (votes "against" and "abstention") was **27%** in 2016, down **9 points** from 2015.

This change is primarily due to a 17-point drop in opposition rate for the *Balance of Powers* theme after a change in voting policy for 2016.

	For	%	Against	%	Abstention	%	Total
Americas	513	72.5%	158	22.5%	37	5.0%	708
Asia	99	72.0%	32	23.5%	6	4.5%	137
Europe	1750	68.5%	599	23.5%	202	8.0%	2551

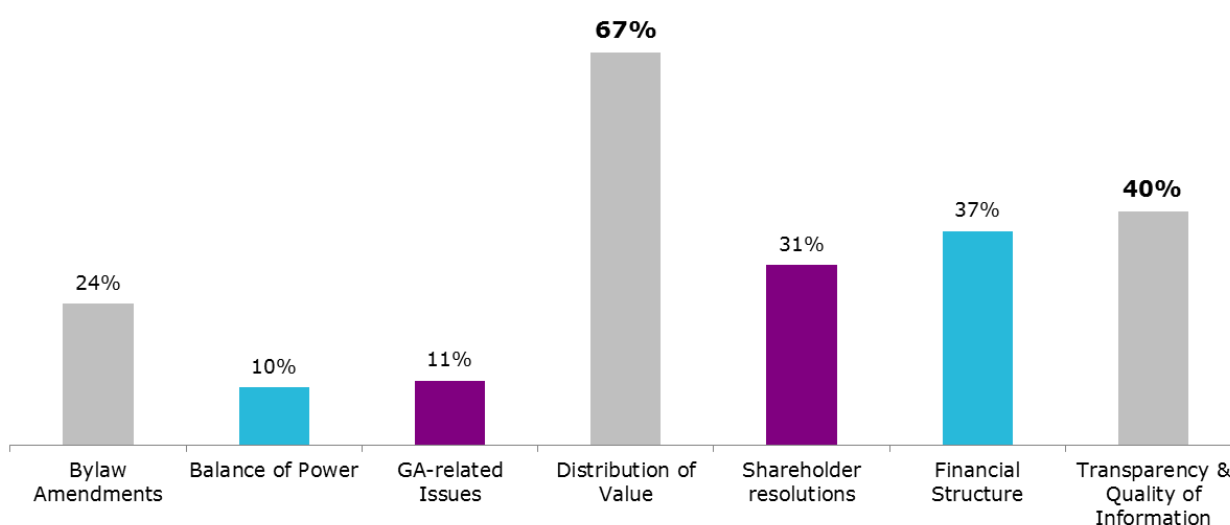
The opposition rate in Europe (31%) was slightly higher than that of America and Asia (29%), which can be explained by the fact that European companies proposed a wider range of subjects for shareholder voting. For example, Europe represented 84% of resolutions in the *Remuneration* theme and 86% of resolutions in the *Transparency of Information* theme, two subjects that are particularly opposed by Mirova.

Given the weight of these themes held in high regard by Mirova in the agendas of American and European companies' GMs, the 2016 voting results analysis will focus on these two geographic regions in the voting perimeter.

### a) All Geographic Regions

Figure 1

#### Opposition Rates by Theme World-Wide



The *Balance of Power* category, which includes resolutions on Board composition, represented nearly one third of resolutions voted in the European region. Mirova's opposition rate on this theme fell sharply to 10% from its 2015 level (27%), while the number of resolutions increased



by 10%. This change was due to new Mirova guidelines concerning Board composition with the goal of sanctioning fewer candidates in cases of practices not compliant with Mirova's expectations [cf. in 4.c)].

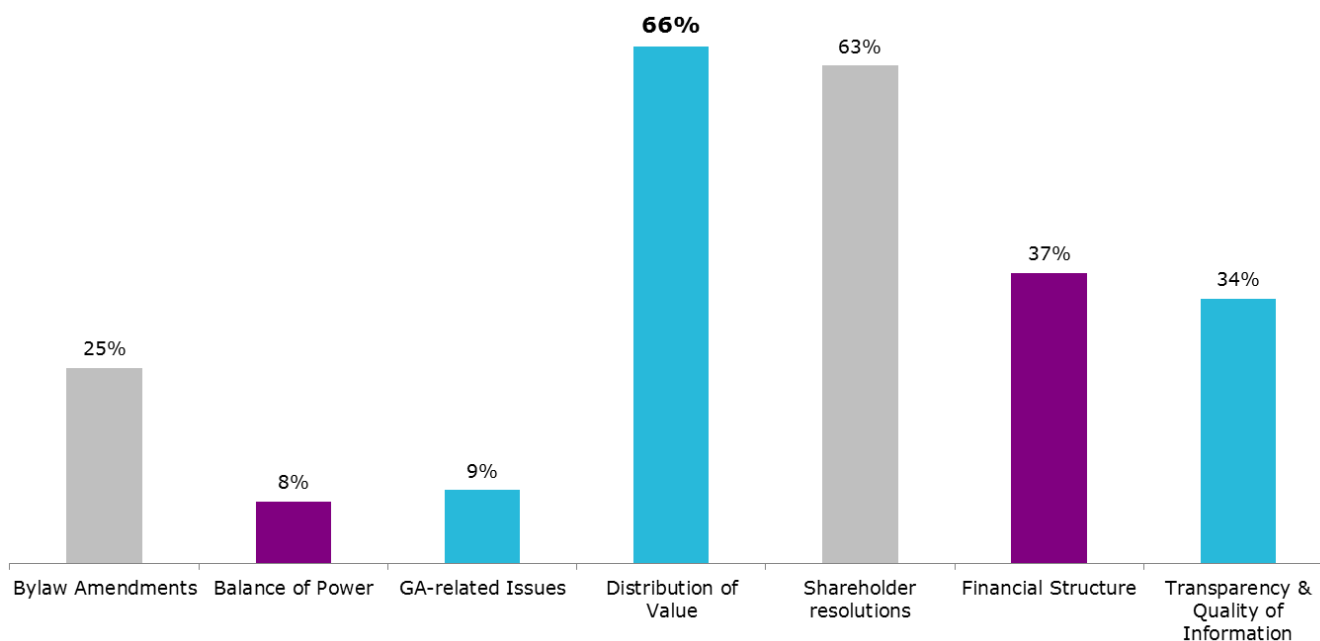
*Distribution of Value*, second in resolutions voted (523 in all), retained the highest opposition rate (67%). These figures confirm a trend already observed last year (57% opposition on average in 2015 for the theme). This year's opposition rate, however, shot up 10 points, revealing Mirova's reinforced requirements in terms of executives' remuneration [cf. in 4.a)].

The opposition rate for the *Transparency of Information* theme remained the same as in 2015, at 40%, translating a lack of significant change in businesses' practices in this regard, particularly in Europe, which represented 86% of resolutions in the theme.

## b) Europe

**In Europe**, France and the United Kingdom constituted 60% of resolutions voted. Germany, Switzerland, and Spain followed with lesser proportions (8%, 7%, and 6%, respectively), while the nine remaining countries each covered less than 5% of the region's resolutions.

**Figure 2**  
**Opposition Rates by Theme in Europe**



The average opposition rate increased to 31%, but a by-country analysis reveals large disparities. Italy recorded the highest rate at 57%, whereas Ireland was at 18%. France and the United Kingdom recorded rates at the region's average (31%).

The *Distribution of Value* theme was subject to a higher opposition rate than in 2015 (66% vs. 58%). This can be explained by Mirova's reinforced guidelines concerning executives' remuneration and by the simultaneous increase in the number of resolutions on remuneration reports or policies (+15%).

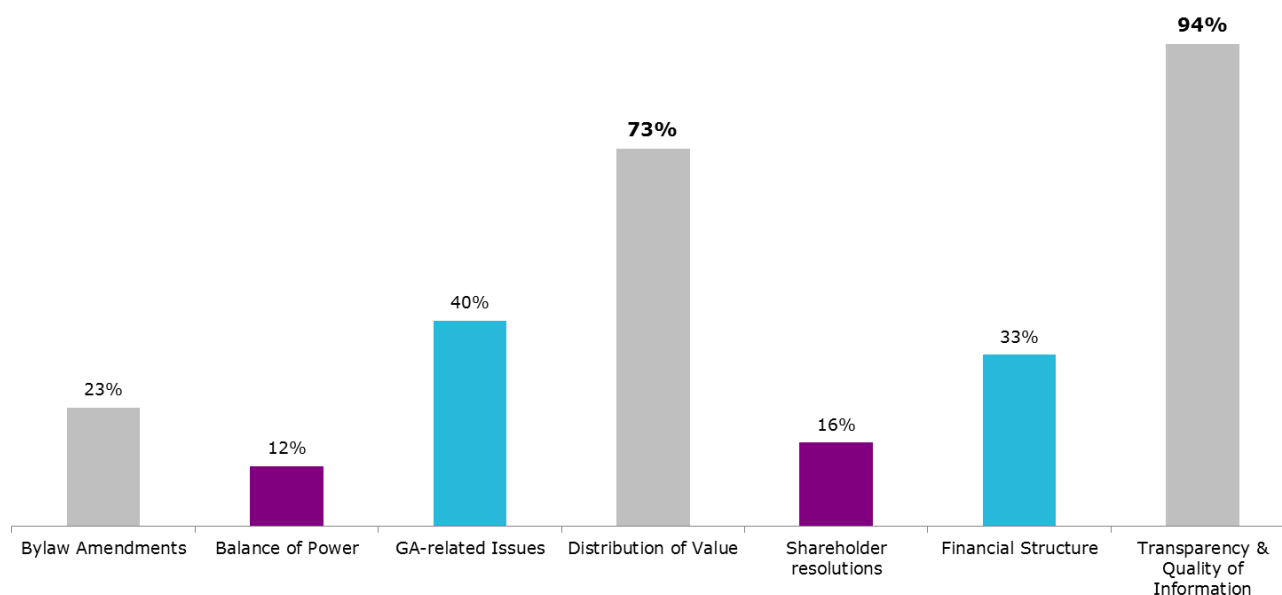
The other important change compared with 2015 was in the *Shareholder Resolutions* theme, even though this was a marginal theme for the geographic region (19 resolutions, or 0.74%).

Resolutions pertaining to Italian elections were a smaller percentage of the category (47% vs. 91% in 2015), due to the increased number of resolutions submitted on the Austrian and French markets proposing other candidates.

### c) Americas

**In the American region**, which comprises essentially the United States and Canada, the average opposition rate increased to 25.5%.

**Figure 3**  
**Opposition Rates by Theme in Americas**



More than two thirds of the resolutions submitted in this region (68.5%) pertained to *Director Elections*, with a strong impact on the American market, where 57% of resolutions were dedicated to this theme.

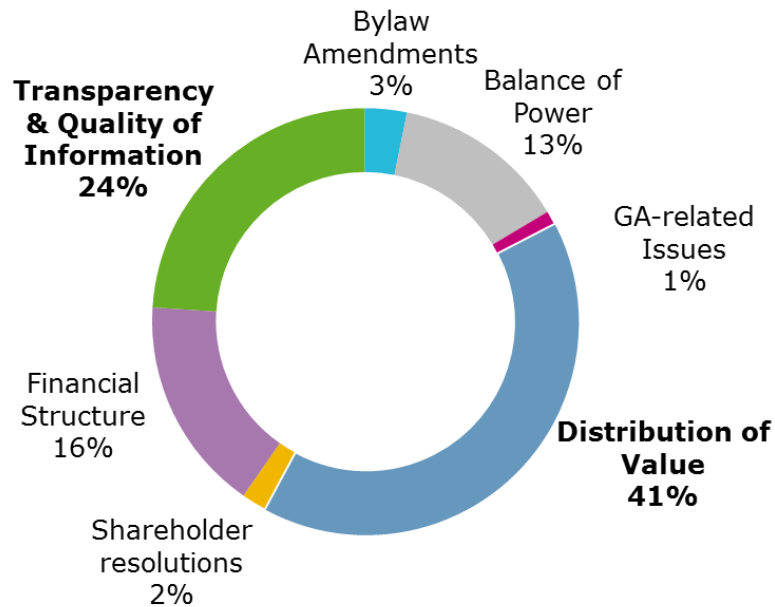
The *Distribution of Value* theme, although it only covered 12% of the proposed resolutions, remained the object of high opposition in general. Concretely, this opposition mainly (i.e. at 79%) concerned approval of remuneration reports in the United States.

Finally, for the *Transparency and Quality of Information* theme, opposition was at over 80% on the nomination and renewal of auditors in the United States, a market in which these practices are much less regulated than they are in Europe, and thus in great disparity with Mirova's expectations. It is of note that financial account approval is not an issue subject to shareholder voting in Canada or in the United States, in contrast with the European markets where all countries propose this topic on their general meeting agendas.

## 6. Analysis of Opposition Factors

**Figure 4**

**Opposition Distribution by Theme**



Mirova's voting policy is dedicated to addressing the issues that companies are facing today, primarily those related to sustainable development. To this end, it pays particular attention to remuneration distribution between company stakeholders and the quality of both financial and extra-financial information provided. These two issues thus constitute the majority of our opposition votes.

a) Distribution of Value

The *Distribution of Value* category covers all resolutions concerning the remuneration of the various stakeholders that contribute to value creation within in a company: shareholders (dividends), employees (savings plans), and managers (remuneration structures). This also includes the remuneration paid to directors insofar as their wages can impact the good exercise of their responsibilities in the wider interest of the company and all its stakeholders.

Figure 5

Distribution of Opposition by Sub-theme

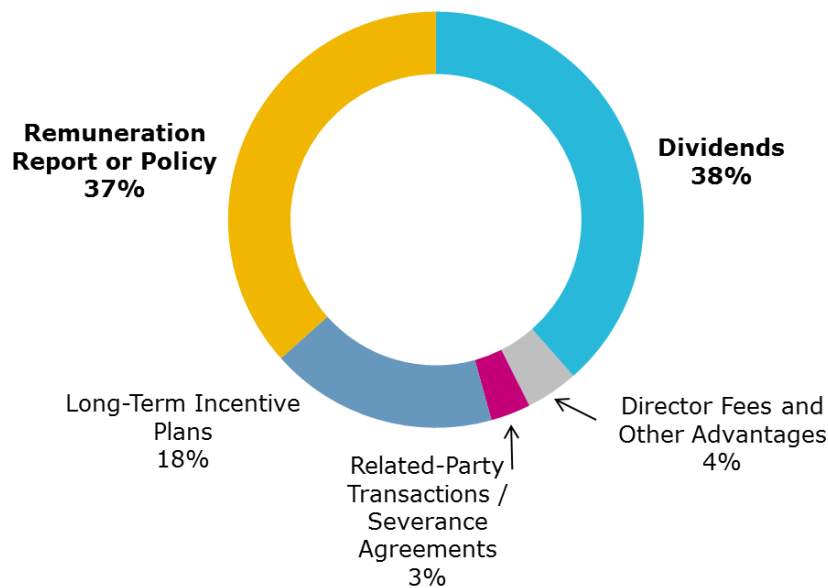
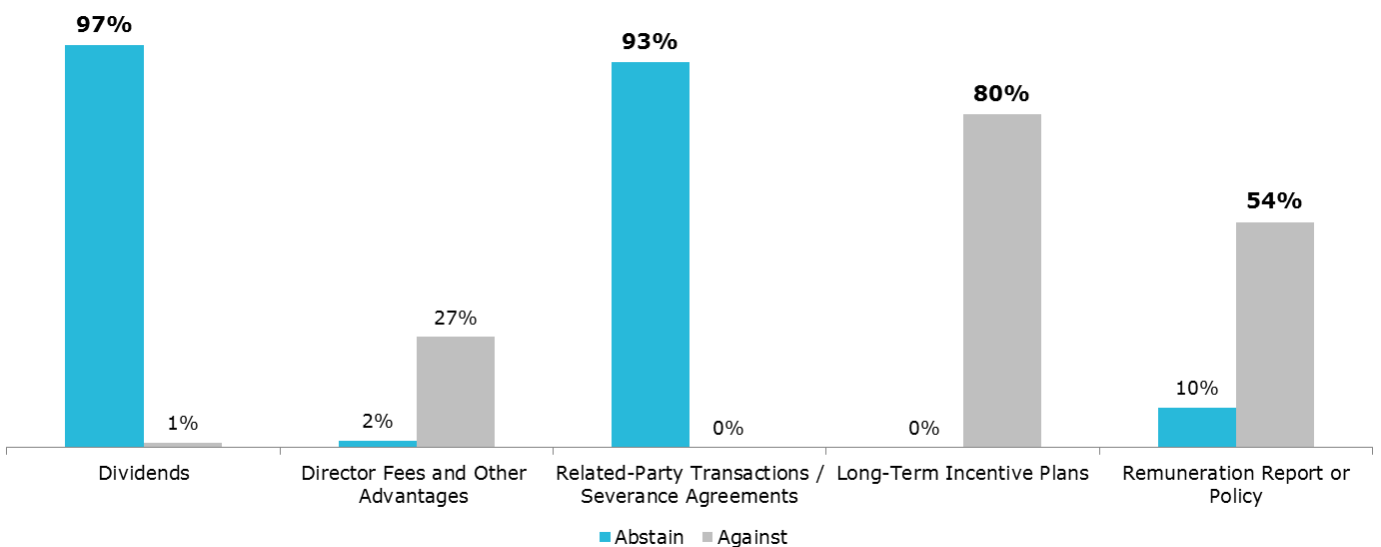


Figure 6

Opposition Rate for Each Sub-Theme



The *Remuneration Report or Policy* and *Dividends* sub-themes cover 75% of all opposition votes in this category, a proportion relatively similar to 2015.

It is, however, important to recall that for dividends and remuneration policy, Mirova has a specific approach in which the majority of their opposition votes are actually abstentions. As companies are a human collective, all major stakeholders have a legitimate right to receive a portion of the created value. Therefore, defining fair remuneration for each stakeholder, including shareholders and managers, could be subject to an internal company policy that would primarily be the responsibility of the Board of directors. So, Mirova generally questions the legitimacy of a specific stakeholder having a say in the remuneration of another, and thus chooses to abstain from resolutions on these principles of remuneration defined *ex ante*. This same logic justifies the large portion of abstentions from votes on post-term advantages for executives as these policies are generally established *ex ante*. Voting on these elements that come from regulated agreements as a separate resolution is also specific to French companies.

For resolutions on remuneration mechanisms and their implementation (remuneration reports and long-term initiative plans for management/employees), Mirova opposes those that do not include environmental and social performance criteria. This guideline was particularly reinforced in 2016. Mirova expected that these criteria be included in both short-term and long-term variable mechanisms in order for support for remuneration reports to be justified.

So, 75% of votes against remuneration reports were due to the lack of environmental and social criteria. 60% of the resolutions on this issue came from the United States and France, demonstrating the advances made in these countries. In the United States, integration of environmental and social criteria remains minimal, even though this practice is gaining in popularity, as was indicated by a recent Goldman Sachs study that found that 20% of S&P500 companies currently integrate these criteria. However, this trend is not reflected in long-term mechanisms, as can be seen by the fact that none of the long-term initiative resolutions proposed on the American market included these indicators (100% opposition). These long-term mechanisms are often viewed as first being a means to align management's interests with those of the shareholders, leading to a tendency to favour shareholder profit indicators over extra-financial indicators. Similarly, only 23% of long-term initiative resolutions in France included environmental and social criteria.

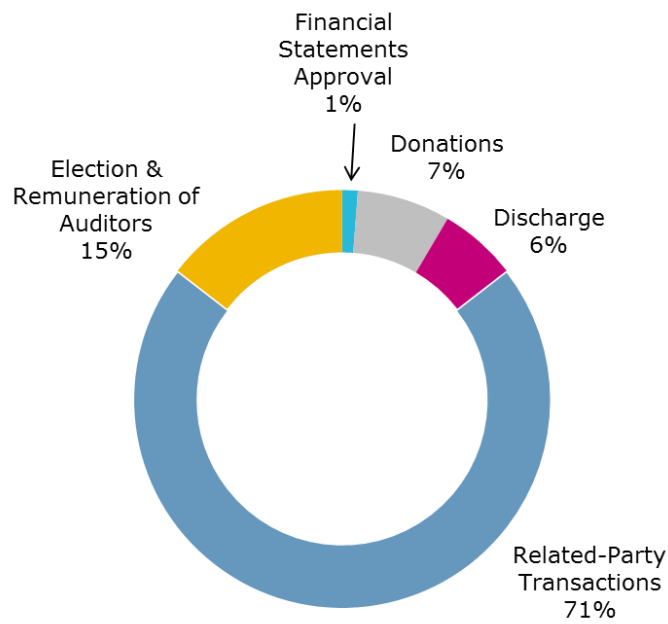
The primary obstacle to integrating these criteria is often the difficulty in choosing which of these are pertinent, objectifiable, and quantifiable. The in-depth dialogue that Mirova has developed with nearly 30 companies, primarily French, demonstrates that this issue underlies and often structures CSR approaches. Integration of CSR criteria into remuneration mechanisms is therefore optimal when part of a group-wide CSR policy. Mirova believes this should be the basis of remuneration policy - it should be a part of the company's strategy and reflect the company's goals, be they financial or extra-financial.

### b) Transparency and Quality of Information

The *Transparency and Quality of Information* category was the second key theme for Mirova in analysing governance practices. As investment decisions are essentially made according to information communicated by the company, this information must be transparent, pertinent, and reliable.

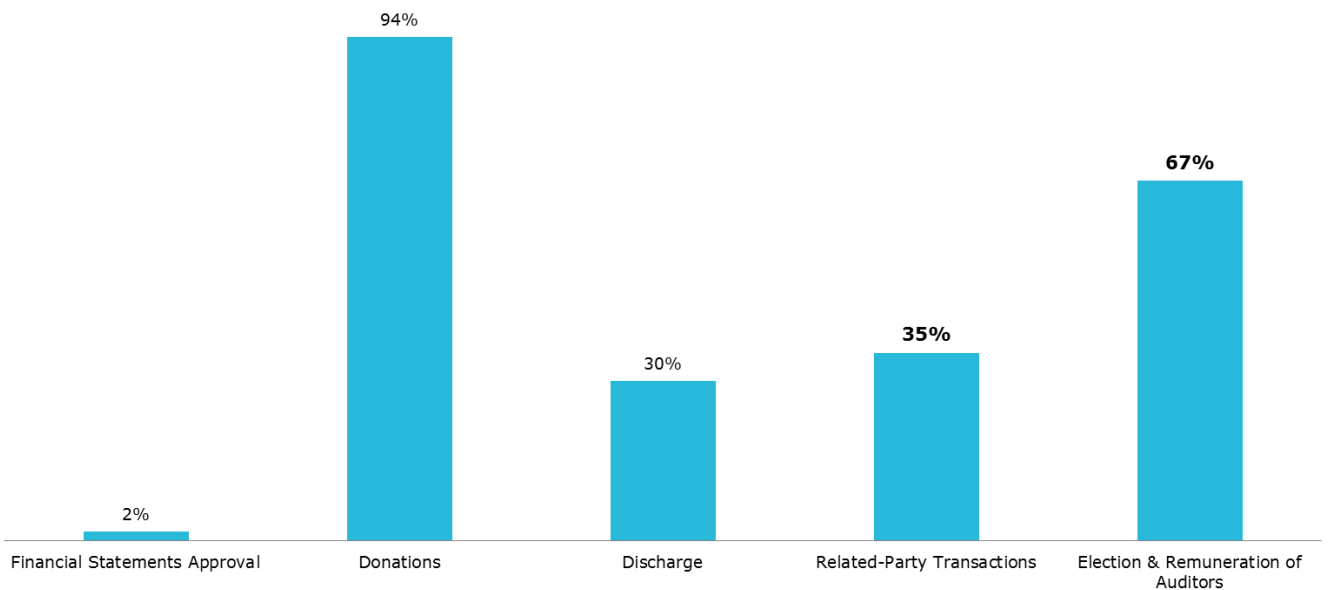
**Figure 7**

**Distribution of Opposition by Sub-theme**



**Figure 8**

**Opposition Rate for Each Sub-Theme**



*Election and Remuneration of Auditors* resolutions alone represented over two thirds of opposition in this category. They were also, however, the type of resolution the most often voted on (42%), and were proposed not only on several European markets (Germany, France, and the United Kingdom in particular), but also on American markets (United States and Canada), and on Asian markets to a lesser extent (mainly Japan). Mirova maintained that auditors should remain independent in exercising their functions and did not support their re-election if their term exceeded 18 years in length. Similarly, Mirova was against auditors providing services unrelated to auditing. In Europe, the audit reform passed by the European Parliament that applied starting in 2016 should better regulate firm and service rotation practices beyond certification of accounts, particularly in Germany where this type of service is very common (and largely explains Mirova's 96% opposition rate on this market). In the United States, on the other hand, the difference between practices observed and Mirova's expectations remains pronounced, leading to a 92% opposition rate.

In terms of *Related-Party Transactions*, the French system prefers that all transactions made between a company and one of their corporate officers (managers and directors) be subject to a shareholder vote. So, 92% of this type of resolution came from the French market. Reasons for opposition were either related to the existence of an agreement between the company and a financial holding linked to one of the company's shareholders or to an agreement on service provision by a Board member of the company or an affiliated company.

As it does every year, the *Donations* theme elicited the highest opposition rate and was constituted almost completely by United Kingdom resolutions (95%), which were opposed 100% of the time. These resolutions primarily aimed to allow the company to finance political parties, which could result in conflicts of interest. The only resolution supported on this issue was that of Finnish company that specifically targeted charity projects .

### c) Balance of Power

The *Balance of Power* theme concerned resolutions seeking to change the composition of Boards of Directors or Supervisory Boards. Although director election pertains to all markets, it is of note that election of censors and employee representatives is particular to France.

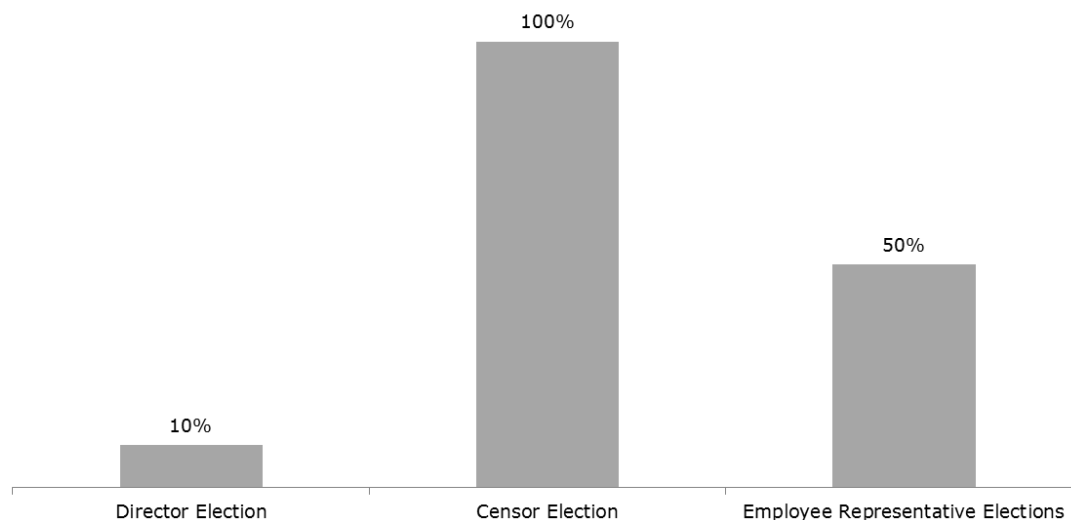
**Figure 9**

**Distribution of Opposition by Sub-theme**

Sub-theme	Proportion in the Opposition
<b>Director Elections</b>	<b>96%</b>
<b>Censor Elections</b>	2%
<b>Employee Representative Elections</b>	2%

**Figure 10**

**Opposition Rate for Each Sub-Theme**



For Board composition, Mirova chose not to adopt a prescriptive position for director nomination. The choice of candidates is the responsibility of the Nomination Committee, which is also in the best position to define the Board’s needs and desired skills. Mirova does, however, adjudicate on the proposed candidates in light of certain criteria that it considers important for ensuring a good balance in stakeholder representation. Mirova particularly supports employee representation on the Board.

Over the 131 opposition votes for director elections (10% opposition rate), a little less than half (59, or 45%) were due to the lack of employee representation on the Board. In the majority of



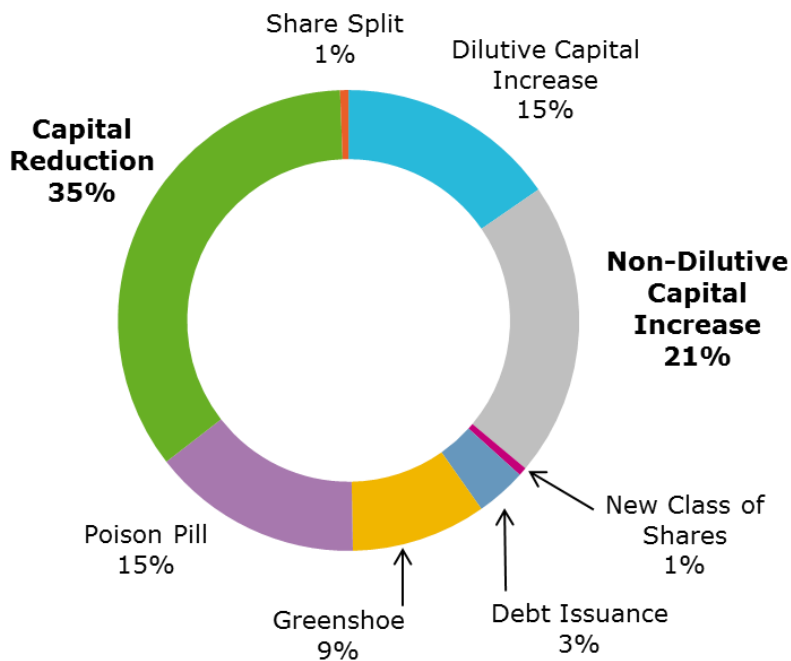
cases, women represented under 30% of Board members, and this figure had not changed since 2015. Around ten opposition votes were due to a service provision agreement between a non-executive director and the company. The remaining cases (~50%) were opposed due to an excessive number of terms. Directors' ability to understand questions of strategy, contribute to the debate on long-term company issues, and supervise strategy implementation is essential and should not be judged based on their lack of availability .

### d) Financial Structure

Resolutions pertaining to the *Financial Structure* of companies represented 15% of total opposition, a similar figure to previous years. This theme covered a variety of subjects as indicated below.

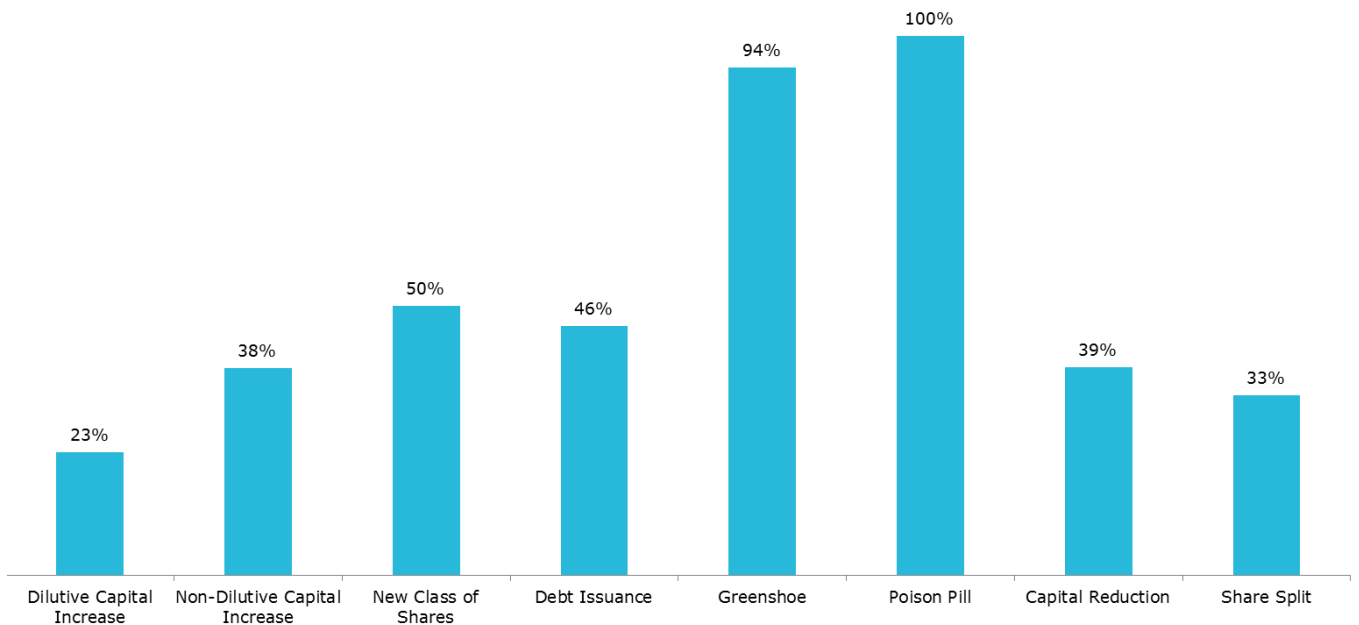
**Figure 11**

**Distribution of Opposition by Sub-theme**



**Figure 12**

**Opposition Rate for Each Sub-Theme**



With the goal of allocating capital for long-term company development, Mirova pays particular attention to justifications of *takeover operations* and capital reduction. Mirova did not support capital reduction resolutions unless they compensated potential dilution due to capital increases from employee remuneration and employee shareholding. The resulting accretion could actually be another way to pay shareholders to the detriment of other stakeholders.

Mirova also pays particular attention to the existence of *anti-takeover mechanisms*. This basically concerns authorisation for capital increases via private investments, which Mirova systematically opposes (100% opposition rate). This category also includes authorisations of capital increases in general that can be used during takeover periods. Mirova's analysis of these mechanisms always reveals risks that could affect the company and its long-term strategy. Mirova therefore expects that governance structures be well constituted (in terms of diversity in stakeholders and skills) in order to ensure that decisions made are in the long-term interest of the company in the case of a takeover. In 2016, we deemed the Executive or Advisory Boards of three French companies that proposed useable capital authorisations for a takeover situation to be of unsatisfactory composition (100% opposition).

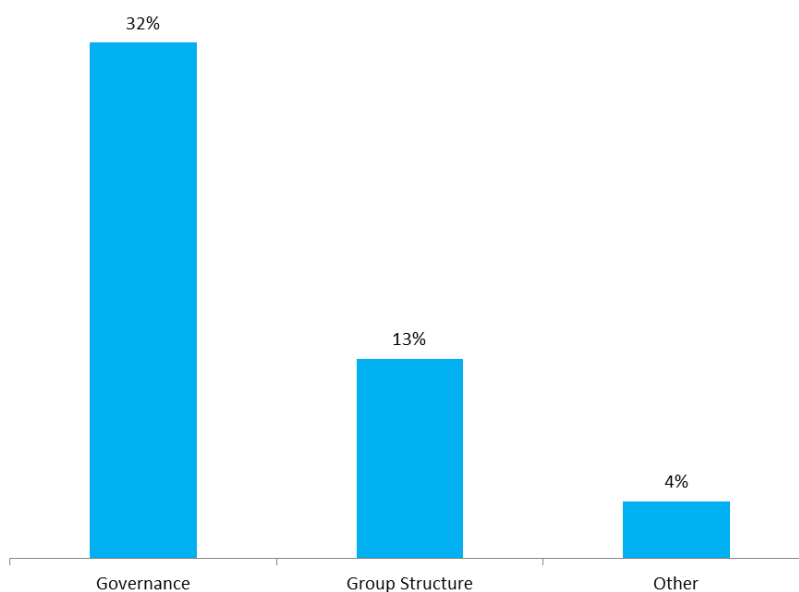
Finally, for the other *Dilutive and Non-dilutive Capital Increases*, Mirova voted according to the dilution limits recommended by its voting policy. Opposition to dilutive resolutions primarily concerned English companies that proposed a dilution level above 50% (i.e. 66%), whereas opposition to non-dilutive solutions was due to companies, primarily French (46% of cases), that proposed 20% dilution, compared to the 10% recommended by Mirova .

### e) Bylaw Amendments

The *Bylaw Amendments* theme included a total of 137 resolutions, or 4% of all resolutions proposed in 2016. 60% of these resolutions came from three countries (Spain, France, and the United Kingdom). Bylaw amendments concerning governance issues were opposed 9 of 10 times.

**Figure 13**

#### Opposition Rate for Each Sub-Theme



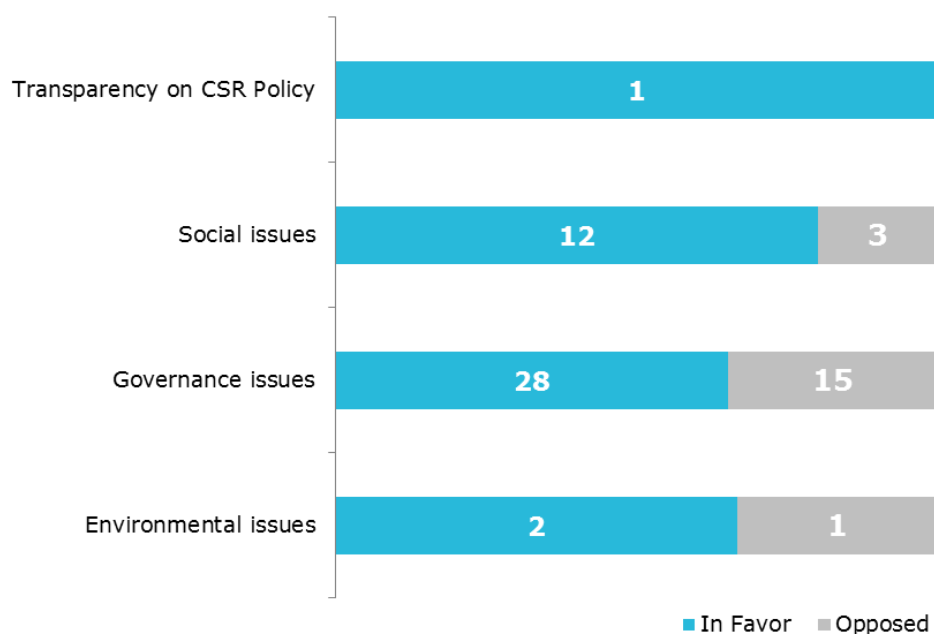
As is the case every year, opposition votes were almost all (80%) against English companies' resolutions to decrease the timeframe for convening an extraordinary general meeting to 14 days despite the 21-day timeframe that was established when the EU directive on shareholder rights entered into force. The choice of returning to previous convening principles was left to companies as long as it is subject to an electronic shareholder vote and approved by the general meeting. This authorisation generally expires at the next GM, so it is regularly voted on .

## f) Shareholder Resolutions

Overall, Mirova voted on 62 shareholder resolutions in 2016 (vs. 53 in 2015), the majority of which pertained to governance issues and, to a lesser extent, social issues.

**Figure 14**

### Distribution of Votes on Shareholder Resolutions



In general, Mirova votes on shareholder propositions on a case-by-case basis when they pertain to social, political, or environmental issues. Mirova's in-depth analysis thus verifies:

- the reasonable nature of the proposal and the validity of the justification provided,
- the impact on the company's short-term or long-term strategy,
- the company's exposure to these issues (impact on reputation, operational risk, etc.),
- the capacity and legitimacy of the company to act on the subject (vs. government responsibility),
- the responses provided by the company to the request submitted in the proposal and changes in company practices over recent years,
- the practices established by peers in the sector.

Mirova would generally support any resolution that encourages companies to adopt more responsible practices. To this end, it supports all resolutions calling for greater transparency on the company's general CSR strategy or policy.

Figure 15

## Distribution of Opposition by Sub-theme

Sub-theme	Proportion in the Opposition
<b>Governance Issues</b>	79%
<b>Social Issues</b>	16%
<b>Environnemental Issues</b>	5%

More specifically, for shareholder resolutions opposed, Italian companies' resolutions on director elections constituted 45% of the *Governance* category. Director election in Italy has been based on a voting by list system (*voto di lista*) since 2005. This system allows shareholders, both majority and minority, to suggest director lists for available Board positions. Mirova is generally opposed to lists suggested by majority shareholders in order to ensure better Board representativity. Although this system was originally established to allow independent shareholders representation on the Boards of public companies, its use today is questionable as these companies are no longer held by controlling shareholders. Other *Governance* resolutions opposed either sought to nominate alternative candidates to those proposed by the Board or modify the profit distribution policy. The lack of transparency and detailed information on the effect of these proposed measures led Mirova to oppose them all.

*Social Issues* resolutions opposed all came from the American market. These resolutions proposed that companies ensure that countries where they establish business and/or political organisations benefiting from their funding do not have values that contradict those upheld by the company. Mirova paid particular attention to analysing the policies already in place and their effectiveness in terms of the issues raised by the solution's authors. In all three cases, the measures in place already adequately covered these issues.

Finally, the resolution opposed that dealt with an *Environmental Issue* was on the agenda of a big American IT company. It proposed requiring the company to investigate how to attain zero greenhouse gas emissions by 2030, both for its infrastructure and suppliers. Although Mirova completely supports this shareholder's efforts to promote company awareness of climate change issues, it chose not to support the initiative since the company was already committed to reducing the ecological footprint of its supply chain with the help of defined objectives.

## **CASES IN WHICH MIROVA WOULD NOT HAVE RESPECTED ITS VOTING POLICY**

Mirova exercises its voting rights in the exclusive interest of unit-holders and respects in this context the principles set out in its voting policy.

## **CONFLICTS OF INTEREST**

In compliance with its voting policy, Mirova exercises its voting rights in the exclusive interest of unit-holders and does not participate in the general meetings of entities of the BPCE Group or BPCE Group's subsidiaries/ holdings, the securities of which are traded on the market.

No conflict of interest came up during the exercise of voting rights in 2016.

**MIROVA**

Limited Liability Company - Share Capital € 7 461 327.50  
Regulated by AMF: n°GP 02 014  
RCS Paris n° 394 648 216  
Registered Office: 21 quai d'Austerlitz – 75013 Paris

Mirova is a subsidiary of Natixis Asset Management.

**NATIXIS ASSET MANAGEMENT**

Limited Liability Company - Share Capital € 50 434 604.76  
Regulated by AMF: n°GP 90-009  
RCS Paris n°329 450 738  
Registered Office: 21 quai d'Austerlitz – 75634 Paris