2020 Q2 ABB Themes and Case Studies

In the second quarter of 2020, we voted ABB shares at 149 shareholder meetings of 143 companies (six companies had both a regular meeting and an extraordinary meeting, one company was voted twice after a change of agenda)[1]. Of those 149 meetings, 25 were held in the United States, 20 in the UK, 14 in France and 13 in Germany. There were eleven meetings in the Netherlands. The number of meetings where votes were cast against management was 61 (or 41 percent) while for 88 ballots, ABB sided with management on all agenda items. In the United States, ABB voted against management in 21 cases, with one of the causes being remuneration in all cases but two. Excessively lengthy auditor company tenure was recorded in nine cases, with one company being in charge for over 100 years. In the UK, ABB voted against management in slightly more than half of the meetings (twelve), with remuneration a concern in eight meetings. In France and Germany, votes against management involved individual directors, mostly for lack of independence or diversity. In Switzerland, the dissenting voices concerned remuneration at all the meetings voted against except for one. We voted ABB shares against management in the Netherlands three times, always on remuneration, and on that item only.

General trends

The proportion of meetings were shares were voted against management is similar to the first quarter (41% vs. 38% then). The reasons remain the same. In the US, there is very little turnover in auditor companies, which always generate a large amount of opposition votes. Where remuneration is concerned, one of the reasons is almost always the absence of ESG criteria. We still see excessive packages, mostly in the US, sometimes in the UK.

Still pressing for diversity

We incorporated ABB's new guidelines on diversity starting in the first quarter of the year, whereby the proportion of each gender on the board should be at least 40%. The impact was initially very limited due to the small number of meetings. In the second quarter, we did see an increase in cases. In Europe, we voted against at least one director for that reason at ten of the 105 meetings. In North America, diversity generated four votes against management, from 30 meetings. Outside of those selected zones, we saw four cases of lack of gender diversity out of 14 meetings.

We know that the diversity issue manifests itself less in developed markets, though, as mentioned above, we encountered it in almost ten percent of meetings in Europe. The low proportion of developing market shares in ABB's portfolios could explain the overall fairly low level of occurrence. We nevertheless believe it is a good policy to apply the pressure on boards to diversify by gender by casting opposing votes where necessary.

Looking forward, we believe that, in light of recent protests around the world following the death of George Floyd in the US, concerned investors will increasingly demand more ethnic diversity on boards. The subject is reported on in South Africa (no shares in ABB's portfolio) and Canada, but hardly anywhere else. Such policies are not easy to implement or monitor, but the pressure is bound to increase in times ahead.

We will continue to monitor this issue carefully and supply updates in coming quarters.

1 Note that the numbers mentioned above are based on the best available data at the time and do not include all holdings, most notably Japanese stocks.

Increased board independence and gender diversity in Japan

In Japanese 2020 AGMs, we have confirmed an encouraging progress in independence and gender diversity of Japanese boards. The number of the companies with more than one-third board independence has significantly increased to 77% among the companies where we undertook proxy voting for ABB[2] between January and June 2020[3]. This figure was 60% in 2019. The number of female directors at these companies has also increased by 14% in 2020, although the average female representation is still less than 10%.

We understand the major reason for these drastic improvements are recently tightened voting policies by proxy advisors and investors. ISS and some major Japanese institutional investors have started in 2020 voting against the boards with less than one-third independent representation at more companies, while we, on behalf of ABB, had started applying the one-third rule ahead of other investors in 2017. Glass Lewis and some foreign investors including Legal & General, State Street Global Advisors, and Goldman Sachs Asset Management, have started in 2020 casting a vote against the boards which have no women.

Board independence and diversity is expected to further increase in Japan in coming years. We think continuous pressure from global investors is necessary to accelerate the speed to enhance progress. It may be good timing for ABB to consider applying stricter rules on Japanese companies after 2021.

Tokyo Electron (8035)

Tokyo Electron is a global manufacturer of semiconductor and flat-panel display (FPD) equipment. We recommended a vote against re-electing two male executive directors because the board has less than one-third independence (27% or 3/11). The board has only one woman who is an independent director. It is unfortunate that the company has not changed the board composition, while many other Japanese companies have aggressively increased board independence and diversity. Although Tokyo Electron's business performance has been solid in recent years, we have a concern that the delay in enhancing governance transparency and effectiveness could be a potential risk for the company over the long-term. Among 27 executive officers, there are no women.

We also recommended a vote against the resolutions related to remuneration. Resolutions 3, 4, and 5 ask for approval to pay cash bonus and stock options to executive directors and officers. Unfortunately, these remuneration plans are linked only to financial KPIs such as consolidated net income and ROE, and have no link to relevant social and environmental targets. Resolution 6 asks for approval to introduce a new non-performance linked equity remuneration plan for independent directors. We did not support this because the restriction period was only 3 years.

Many Japanese companies, including Tokyo Electron, have their own targets to address E&S issues. However, most companies are still reluctant to set a formal linkage between such non-financial targets and management remuneration. In order to further encourage Japanese companies to consider this matter more seriously, we believe more inputs from global investors about best practices and examples in Europe and other regions are very useful.

2 ABB owns shares in 15 companies

3 Some major Japanese companies including Hitachi, Toshiba, and Olympus have postponed their meetings to July due to delay in preparation of financial statements.