DSW NEWSLETTER

from Germany's No. 1 Shareholders' Association

January 2018

Editorial

DSW celebrates its 70th anniversary: Major milestones in its history

On **28 of March 1947**, DSW was founded by a group of former Reichsmark-Bondholders to represent their interests towards the companies which survived world war II.

Since then, DSW has been active in defending and representing the interest of private investors in Germany and abroad. Here are a few **key milestones** we reached over the last 70 years:

The reform of the German Securities Law (Aktiengesetz) in **1966** was fundamentally influenced by DSW's positions and is therefore by many also called DSW-Law.

In **1972/73**, DSW recovered hundreds of millions of Deutsche Mark for investors who suffered severe losses by an investment in the fraudulent Bernie Cornfeld company Investors Overseas Services (IOS).

In **July 1982**, DSW could finalize another important legal case for its members: We won a case against the company Beton- und Monierbau at the highest German Court (Bundesgerichtshof) which decided to compensate all investors in the case of a wrongful prospectus for an increase in the capital of the company which finally went bankrupt. The recovery of losses suffered by the shareholders had to be compensated by the issuing bank WestLB.

In **2002**, the Argentine Republic became insolvent and left millions of German bondholders with huge losses. DSW founded an interest group for all of them in order to find a settlement with Argentina and the banks involved. Finally, DSW succeeded: private bondholders received a better offer for compensation than the large institutional investors.

And only very recently, in **November 2017**, DSW enforced an independent audit against Volkswagen (see p. 2 for details). Despite the improvements DSW already reached for private investors, there is still a lot of work to be done in continuing to defend the rights and interests of investors in the future.

Content

ATTENTION:
If you would like to receive our newsletter via E-Mail, please contact *jella.bennerheinacher@dsw-info.de.*

DSW enforces independent audit against Volkswagen

In a final judgement from November 2017, the Higher Regional Court of Celle appointed an independent auditor upon request of DSW to investigate exactly which role Volkswagen's top managers played in the diesel scandal.


OBERLANDESGERICHT CELLE
9. Zivilsenat
Die Geschäftsstelle

Geschäftsnummer:
9 W 86/17
Bitte stets angeben!

Oberlandesgericht, Postfach 11 02, 29201 Celle

Celle, 8. November 2017

DSW had already requested the appointment of an independent auditor at the company's general meeting 2016. The proposal had expectedly been blocked with the voting rights of the major shareholders, the Porsche/Piëch families, the State of Lower Saxony and the State of Qatar, which held around 90% of the company's voting rights. Therefore, DSW brought the case to court and won in this final decision that cannot be appealed by Volkswagen.

The independent auditor will have the right to investigate who at Volkswagen had known what and when in connection with the diesel scandal and whether the company promptly disclosed the possible financial damage to investors. To achieve this, the independent auditor will be able to request any information he deems necessary, including confidential documents. The court granted the independent auditor the maximum possible time frame to examine any wrongdoings within the company – he can investigate into activities dating back to 2006.

The court followed DSW's opinion that there is a strong argument for management board members having known significantly earlier than admitted about the diesel scandal. Furthermore, the court argued in line with DSW that purely internal investigations cannot be considered as sufficient to clear up the circumstances surrounding the diesel affair. The company argued in the court proceedings that among others the Jones Day report which up to now has not been published would make an independent audit unnecessary. According to the court, Volkswagen had had enough time over recent years to inform the public or at least its investors insofar as results of its own investigation were available. This has not yet happened. Furthermore, the court considered it not tolerable that Volkswagen referred to the potential consequences based on unlawful behavior of its own employees as a justification for its ongoing opacity.

Ulrich Hocker, President of DSW, considers the court ruling as a great success that strongly strengthens minority shareholders' rights in Germany: "This is an extremely good decision for Volkswagen shareholders who have lost a lot of money in the wake of the diesel scandal" he said and noted that "at last, light will be shed on the darkness that has shielded Volkswagen for so long."

The results of the independent audit whose findings may also have a positive impact on the compensation claims filed by investors in Germany will have to be published at the general meeting following the completion of the auditor's report. This is, however, not to be expected before the general meeting 2019.

Burdensome lengths of legal procedures are only one obstacle for investors in Germany having suffered losses from unlawful behavior of company's management board members. DSW therefore strongly supports EU Commissioner Vera Jourova's approach to establish an EU-wide collective redress scheme for (financial) consumers in the EU (see our letter to Ms. Jourova on p. 5).

DSW brings legal action against Linde

DSW, Germany's largest association for private investors has filed a legal action striving for a court decision to clarify the management board's discretion and its limits.

Starting point for this motion was the decision of Linde AG to enter into a Business Combination Agreement (BCA) with Praxair published in late 2016.

This BCA is envisaged by means of an exchange of shares under the umbrella of a new holding company which will have totally different governance structures:

- It aims at a single-tier board instead of the current two-tier board system Linde has so far.
- The holding company will be domiciled in Ireland meaning that Linde shareholders will be confronted with a totally new legal regime and it will be more difficult for them to exercise their shareholders' rights across borders, for example their voting right.
- The financial relations will change significantly. Valued at approx. EUR 32 billion, Praxair is valued much higher than Linde with EUR 29 billion. However, Praxair sales only amount to around half of the sales of Linde. It is therefore foreseeable that the share of the assets attributable to the "Linde part" will decline within the new overall group, which will also entail a continuously decreasing significance of this part.

Whereas Praxair shareholders were entitled to vote on the BCA at a general meeting, Linde denied shareholders' competence and rejected DSW's request to add this item to its annual general meeting in May 2017. Linde argued that there is no mandatory requirement in Germany for a shareholder approval and that existing case law which requires a shareholder approval in exceptional cases of fundamental structural changes at company level was not applicable to the Linde/Praxair deal. Last but not least, shareholders would in any case be able to decide individually whether to accept a public offer from the new combined holding company, so a shareholders' vote would not be needed.

DSW considers that shareholders' approval of such a merger is necessary and required where the character of the entire company is drastically changed for the Linde shareholders. Providing shareholders with an exchange offer is not considered as a comparable option, especially in cases where shareholders are not provided with a genuine exit option, like e.g. a cash compensation. Therefore, in the view of DSW, the general meeting needs to be involved as such a significant decision can no longer be taken by the management of a company alone, circumventing the competencies of the general meeting.

With its legal action, DSW does not seek to avoid the Linde/Praxair BCA as such but demands for a declaratory court decision to achieve legal clarity for future cases and in order to avoid the Linde/Praxair merger to become a blueprint for future mergers in Germany.

New president from DSW for Better Finance

Jella Benner-Heinacher

On 13 October 2017, Better Finance elected Jella Benner-Heinacher, the Deputy Chief Executive of Germany's oldest and largest association for private investors, DSW, as its new President. Better Finance – the European Federation of Investors and Financial Services Users – is by far the largest organization representing individual investors and other financial users at European level with over 30 member organizations across the EU and beyond. "I am honoured by the trust put in me. Working at the European level is certainly one of the most important, but also the most challenging tasks in the field of investor protection. Better Finance has to remain one of the strong voices in the future", states Benner-Heinacher. She particularly sees the opportunity to promote topics such as the simplification of cross-border voting rights of shareholders via the digitalization campaign of the EU Commission.

Especially the use of modern technologies, like blockchain, could be a unique chance to simplify and to speed up the procedure to exercise cross-border votes. Instead of using the slow and inefficient chain of different intermediaries – which is one reason for the current very time consuming process – blockchain or distributed ledger technologies could dramatically accelerate the process to the advantage of the shareholders. The outcome would be that the investor has enough time to take a well-balanced decision on how to vote his shares.

The EU Agenda in 2018

2017 has left EU citizens as savers and investors with a bittersweet aftertaste. A case in point is the long overdue request by the European Commission (EC) for the European Supervisory Authorities (ESAs) to report on the past performance and costs of long-term savings products. Whereas this positive development was welcomed by Better Finance, the contradictory decision by the EC to eliminate any disclosure of past performance information in the new Key Information Document (KID replacing the UCITs KIID) for retail investment products (PRIIPs), essentially renders this development null and void...

2018 will also have its share of challenges as the **PRIIPs and MiFID II regulations** will come into effect, with the new PRIIPs KID leaving retail investors in the dark as to whether a product has ever made or lost money in the past.

The **reform of European Financial Supervision** is also on the table. Better Finance will continue to draw attention to the fact that, as long as no distinction is made between consumer protection objectives and prudential ones, the ESAs will lack the teeth with which to enforce EU Law and curb mis-selling.

Besides these challenges, there are important developments to keep an eye on in 2018. With the pension's gap looming over the EU, a simple, standardised and cost effective **pan-European Personal Pension (PEPP)** will prove to be crucial in alleviating this harmful situation.

Since low financial literacy levels and the lack of an equity culture remain the main obstacles to fostering retail investment into capital markets, Better Finance will also focus on **Investor Education**. It is crucial that EU citizens regain trust in financial markets, a key objective of the EC's "Capital Markets Union" (CMU) initiative, which so far has delivered modest results.

Last but not least, Better Finance will continue to fight for individual shareholder rights with Christiane Hölz of DSW representing both Better Finance and DSW at the Expert Group helping the EC to draft the implementing acts of the new Shareholders Rights Directive.

Better Finance and DSW push for EU class action

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Vera Jourova
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Jella Susanne
Benner-Heinacher
Hauptgeschäftsführerin (stv.)

Düsseldorf, 19th of December 2017

RE: Strong Support for a system of EU Collective Redress

Dear Ms. Jourova,

I represent DSW, the leading association of private investors in Germany with more than 30.000 members. As our organization just celebrated its 70th anniversary we are specifically proud to inform you that we just won a very important case against Volkswagen (VW) in Germany. The Higher Regional Court (Oberlandesgericht) Celle just decided in favor of the VW shareholders that VW has to allow an independent special auditor to examine in detail the VW Dieselgate in particular with respect to any violations of capital market law. Despite of this milestone in our history as representatives of financial consumers, we at DSW find that for financial users the current legal situation, showing its negative effects clearly in the VW case, ***is not at all satisfactory****. On the contrary, our experience with VW is disillusioning: the company just cares about the US car owners not about car owners in Europe and VW investors. So far VW paid 10 billion USD to car owners in the US, another 2 billion USD to the US Environmental Protection Agency (EPA) and pleaded guilty in the US courts while in Germany and Europe, VW denies any responsibility and refuses any kind of compensation for car owners and investors, not to mention the company's obvious attempt to avoid transparency for European investors. We seem to live in a two-class society and this needs to be changed by the EU Commission.*

DSW Die Anlegerschützer

The German legal framework does not know the system of class actions and we as DSW also do not call for the US class action system for Europe. But we made rather good experiences with the system that has been implemented in The Netherlands, therefore we see the Dutch collective redress system as a possible role model for the EU.

The German system of the Kapital-Anleger-Musterverfahren (KapMuG) looks good at first sight but in daily life the cons become very obvious:

Burdensome lengths of the legal procedures, the burden of proof, higher costs and the short statute of limitation significantly limit the benefits of this procedure for (private) investors. In our view the VW case discloses that there is a ***lack of an effective EU-wide system for collective redress****. Therefore, we see a need to improve this lack of legal remedies in the future.*

Taking the VW case into consideration, I would like to underline that DSW is very supportive of your approach to ***establish an EU wide collective redress scheme for (financial) consumers*** *in the EU. As our organization represents all kinds of financial consumers we strongly favor such a blueprint-approach.*

If we can support your approach in any way by exchanging further arguments, we will be proud to do so. I also offer such an exchange as current president of BETTER FINANCE in Brussels as this organization represents more than 4 million European financial consumers.

I would be very happy to discuss this in a meeting with you.

Deutsche
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DSW expert appointed to Commission's expert group

The recent revision of the Shareholder Rights Directive (SRD II) aims at further facilitating the interaction between listed companies and their shareholders, giving companies the right to identify their shareholders and requiring intermediaries to transmit information relating to the exercise of shareholder rights and facilitating the exercise of these rights.

The SRD II empowers the Commission to adopt implementing acts in order to specify minimum requirements concerning shareholder identification, transmission of information in the chain of intermediaries and facilitation of exercise of shareholder rights. To this end, the Commission set up a group of experts to advise on these processes. The group consists of a total of 12 members. Christiane Hölz, managing director NRW of DSW, represents DSW and Better Finance, the European Federation of Investors and Financial Services Users, at this expert group. She will be the only expert representing independently the interests of private investors.

Christiane Hölz

Jella Benner-Heinacher, deputy chief executive of DSW: "We are extremely proud to have Christiane representing private shareholders' interests in this highly important group. An efficient implementation of SRD II is crucial to finally enable shareholders to exercise their most important right, the voting right, also across borders."

EuroVote

EuroVote is a joint project of shareholder associations in Europe to support individual shareholders in exercising their voting rights at general meetings of listed companies in Europe. Shareholders can make use of the expertise and the network of the national BetterFinance member associations in the country where the respective general meeting takes place.

The objective of this cross-border voting platform is to make the still cumbersome proxy process easy. The EuroVote service is free of charge for individual shareholders.

The web-based EuroVote platform provides a list of companies selected for the respective general meeting season as well as links to the necessary proxy forms in English. Shareholders find straight-forward instructions on how to pass the proxy but also additional information on the technical procedure to pass a proxy for each Member State. The expertise of the local shareholder associations ensures a responsible execution of votes taking into account local market standards.

The EuroVote Voting Guidelines which are annually reviewed are disclosed on the platform to provide a clear and transparent guidance to shareholders throughout Europe if they intend to transfer their voting rights without distinct instructions.

More information on EuroVote can be found at

http://www.betterfinance.eu

DSW's directors' pay survey 2017

How much does the CEO of XY group earn? Does he or she receive enough or rather too much? Are the performance benchmarks of his or her compensation sufficiently challenging? And what about transparency? In its annual Directors' Pay Survey, DSW takes a close look at the compensation of executives and non-executives of Germany's largest companies.

But it is not only the absolute amount of directors' pay that counts for shareholders. Even more important is to understand, why a certain amount has been granted to a specific executive. To this end, shareholders have become more and more critical and voice their concerns at the general meetings. Since 2014, the approval rates at German DAX companies for their executives' compensation systems constantly decreased to an all-time low of 66.34% in 2017 although the compensation reports of DAX 30 companies have included more and more information.

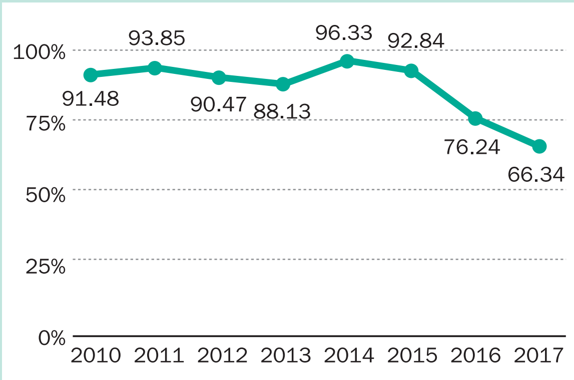
Executive pay 2016

The compensation of the DAX 30 executives rose moderately by 1% in 2016 which was lower than the increase in gross wages in Germany (2.5%). This is all the more surprising as operating profits of DAX 30 companies increased by around 25% on average from 91.5bn EUR to 114.2bn EUR and the index development also saw a plus of 6.9% in 2016.

Nevertheless, the average figures do not show the whole picture. The executives at SAP, for example, received 5.77m EUR on average – a pay rise of about 163.4%. And also in absolute figures, SAP led the pay ranking 2016. Highest paid DAX 30-CEO in 2016 was Bill McDermott from SAP. His total pay amounted to 13.8m EUR.

The CEOs of Adidas, Infineon and Linde can be found at the bottom line of DSW's ranking although it has to be noted that they were compensated only for 3 months (Adidas) and 0.5 months (Linde) respectively.

Say on Pay approval rates 2010 – 2017



Legal background: In Germany, shareholders may vote on the remuneration system for management board members, see para. 120 (4) AktG. The vote, however, is non-binding and advisory: There is no obligation for companies, to put a respective proposal forward and the outcome of the shareholders' vote has no legal consequence whatsoever. The Shareholder Rights Directive II will give Member States the option to choose whether to implement a binding or an advisory vote on the remuneration policy. It is not yet foreseeable which option will be chosen in Germany.

Highest paid DAX 30 CEO in 2016

rank	CEO	company	total pay in €'000	service cost in €'000
1	**Bill McDermott**	SAP	13.773	571
2	**Matthias Müller**	Volkswagen	9.615	527
3	**Dr. Dieter Zetsche**	Daimler	7.716	708
...				
28	**Kasper Rorsted**	Adidas	2.623	587
29	**Dr. Reinhard Ploss**	Infineon	2.310	0
30	**Prof. Dr.-Ing. Aldo Belloni**	Linde	196	–
	Ø DAX		**5.519**	**682**

Despite this increased amount of information shareholders still face difficulties when trying to understand e.g. the link between pay and performance. Companies need to publish pay reports in a way that an average shareholder is able to understand the development of their executives' compensation. DSW therefore asks for a massive simplification of pay systems to ensure that shareholders receive **comprehensible and clear** pay reports.

Non-executive pay 2016

Overall, remuneration paid to all DAX 30 supervisory board members increased considerably by 10.7 % to 83.4m EUR in 2016, a development mainly due to the Volkswagen scandal: The remuneration of Volkswagen's supervisory board which until 2016 was still predominantly dividend-linked was cut to 0.7m EUR in 2015 and rose by almost 500% to 4.1m EUR in 2016. Excluding Volkswagen, the overall DAX 30 supervisory board members' remuneration increased by 5.5%.

BMW paid the highest remuneration to its board members: 5.4m EUR were transferred to the 20 members. Second-best payer was Siemens with overall payments of 5.2m EUR. Volkswagen's intention to finalize the diesel scandal is also reflected in the total amount, the car maker paid to its 20 board members. Their compensation rose by 495% to 4.1m EUR and lifts Volkswagen to rank 5 among DAX 30 companies.

DAX 30 non-executive pay 2016

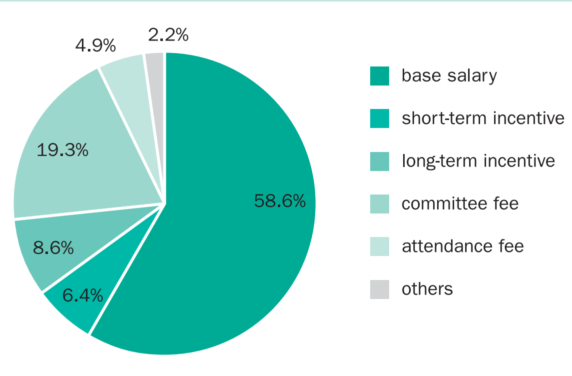
rank	company	board seats	total board pay (in €'000)
1	**BMW**	20	5.394
2	**Siemens**	20	5.151
3	**Deutsche Bank**	20	5.017
...			
28	**Adidas**	12/16	1.327
29	**FMC**	6	1.060
30	**Merck**	16	869
	Total DAX 30	**481/491**	**83.388**

The chair of a DAX 30 supervisory board received 0.362m EUR on average, an increase of 7.5% while a vice chair earned 0.235m EUR on average. The average payment to a vice chair compares to more than twice the amount paid to an ordinary board member in 2016 (0.114m EUR). This is a critical development since the vice chair position normally does not foresee any additional areas of responsibilities. DSW therefore sees no need for an additional compensation.

Taking a closer look at the structure of the DAX 30 supervisory board members' remuneration, DSW's demands for a purely fixed pay to board members seem to have born fruits. Almost 83% of the total remuneration paid to DAX 30 board members in 2016 was paid as fixed components, while only 6.4% related to short-term parameters.

Where board members are granted a variable remuneration, DSW considers that this should be linked to long-term parameters that should differ from those used to evaluate the executive compensation.

Non-executives' pay structure 2016



Further information on executive and non-executive board members' remuneration at DAX 30, MDAX, SDAX and TecDAX companies can be found at www.dsw-info.de (in German only).

German boardroom insights

The role of the supervisory board of German listed companies has undergone significant changes in recent years. Some of these are a direct result of laws or soft laws, such as the German Corporate Governance Code. Others derive from an increased influence of shareholders, the interest of broader stakeholder groups, and the rising public interest in good corporate governance. As a result, the responsibilities of supervisory board members have considerably increased over the past years. Board members' professionalism and expertise, their independence and their availability in time, also during periods of exceptional events, such as takeovers or considerable problems have become more and more important.

Consequently, boards need supervisory board members with diverse skills and backgrounds that have sufficient time to devote to the work on the board to ensure its efficiency and professionalism. This applies in particular to the chairman and those supervisory board members who are chairing key committees such as the audit committee.

DSW took a closer look at the composition of German supervisory boards in 2017: Who are the people that face up to these extensive responsibilities? How diverse are German boardrooms?

Based on a matrix taking the special functions into account, the DSW survey 2017 found that:

- The ten most influential supervisory board members hold 27 board seats at 21 DAX companies. In 2007, the ten most influential supervisory board members held 41 mandates at 24 DAX companies.
- On average, a DAX 30 supervisory board member had to attend six board meetings plus further six committee meetings in 2016. The participation rate stood at around 97%.
- Overall, women account for 31.9% of all board members but are still far less represented at influential positions: Only one DAX 30 company (Henkel) is chaired by a woman and 80.2% of all board committee seats are taken by men.
- The average DAX 30 supervisory board member is 58 years old and holds its board seat since six years. Female board members are significantly younger (55 years on average) than their male colleagues (59 years).
- 24 DAX companies have implemented the Code recommendation to adopt a regular limit to supervisory board members' term of office which is mostly set at 15 years.
- 80.2% of all board members are acting within their first or second term of office.

The most important "networkers" among German board members are Ulrich Lehner, chair of Deutsche Telekom and ThyssenKrupp and board member of E.ON, as well as Michael Diekmann (chair of Allianz and board member of BASF, Fresenius and Siemens) and Werner Brandt (chair of ProSieben Sat.1 and RWE and board member of Deutsche Lufthansa).

Ulrich Lehner, who is further represented on the shareholders' committee of Henkel and the supervisory board of Porsche, chairs various committees at Deutsche Telekom and ThyssenKrupp and, based on DSW's matrix, scored highest in the ranking (see p. 10 for details).

Boardroom diversity

Board diversity aims to cultivate a broad spectrum of demographic attributes and characteristics in the boardroom in order to make decisions more effectively by reducing the risk of 'groupthink', fostering creativity in delivering solutions to problems, or paying more attention to controlling risks.

Consequently, DSW's board survey 2017 also analyzed the diversity of German boardrooms, especially with regard to **gender, age** and **seniority**.

First finding: There is no female board member among the ten leading supervisory board members. The first **woman** ranks no. 11 on our list: Ann-Kristin Achleitner, professor at Technical University of

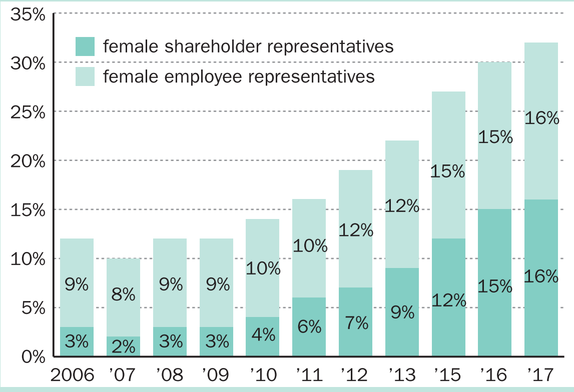
Most important networkers 2017

rank	name	mandates, committees (C=chair)	chair + committee chair (x10)	additional committee chairs (x4)	board member committee chair (x8)	board member committee member (x6)	additional committee chairs (x3)	board member (x4)	total	ex-CEO
1	Ulrich Lehner	**Deutsche Telekom AG (C)**: presidency (C), personnel, nomination (C); **E.ON SE**: presidency, nomination; **ThyssenKrupp AG (C)**: presidency (C), audit, personnel (C), nomination (C) Henkel AG & Co. KGaA (shareholders' committee); Porsche Automobil Holding SE	2	3	0	1	3	0	47	Henkel AG & Co. KGaA
2	Michael Diekmann	**Allianz SE (C)**: standing (C), audit, personnel (C), nomination (C); **BASF SE**: personnel, nomination; **Fresenius SE & Co. KGaA**: combined, nomination; **Siemens AG:** compensation Fresenius Management SE	1	2	0	3	3	0	45	Allianz SE
2	Werner Brandt	**Deutsche Lufthansa AG**: audit (C), **ProSiebenSat.1 Media SE (C)**: presidency (C), personnel (C); **RWE AG (C)**: presidency (C), personnel (C), nomination (C) Innogy SE (C); Osram Licht AG	2	3	1	0	0	0	40	–

Munich is member of the boards of DAX 30 companies Deutsche Börse, Linde and Munich Re.

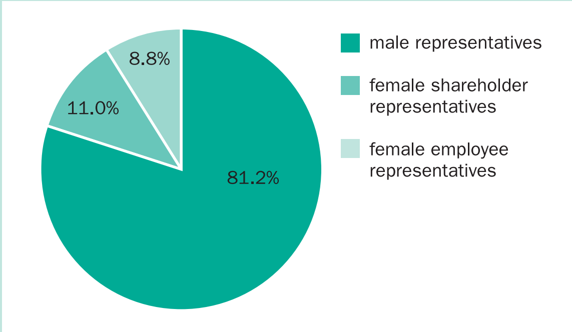
Overall, 31.9% of the DAX 30 supervisory board members are female, which is an increase of 1.5 percentage points compared to 2016.

Female representation in DAX 30 boardrooms



Digging deeper into the figures the following picture, however, modifies the positive trend:

Diversity in DAX 30 committees 2017

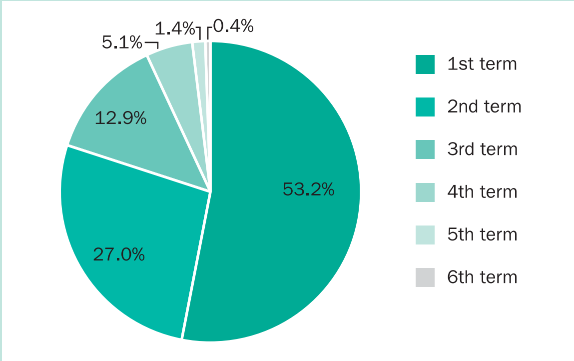


Looking at the membership of women at committees of the 30 DAX companies, their ratio reduces significantly to 19.8% only. Taking further into account that only the supervisory board of Henkel is chaired by a female representative, Germany still has some catching up to do when it comes to gender diversity.

When addressing **age** as an element of diversity, there are many facets to consider. One may believe that older board members bring more experience to the table whereas younger members are expected to bring more energy and a new outlook to the board. DSW's board survey thus shows a mixed age picture among German boardrooms. While the average age of ProSiebenSat.1 board members stands at 54 years, board members of FMC on average are 67 years old – a wide range between the oldest and the youngest DAX 30 boardroom. Across the 30 DAX boardrooms, the average members' age is 58 years, with on average younger women (55 years) than men (59 years).

The average **term of office** of a board member is six years with women holding their office on average five years against men with a seven-year average term. 53% of all DAX board members are in their first term of office, another 27% in their second term. This comes quite as a surprise as it counters the picture of the elderly gentleman, active on the board already for decades.

Average DAX 30 board members' term of office 2017



The full DSW board survey 2017 is available at **www.dsw-info.de** (German only).

ECGS's Engagement Services: Serving investors' needs

The newly adopted **EU Directive 2017/828 as regards the encouragement of long-term shareholder engagement** paints a stark picture of shareholders: "The financial crisis has revealed that shareholders in many cases supported managers' excessive short-term risk taking. Moreover, there is clear evidence that the current level of 'monitoring' of investee companies and engagement by institutional investors and asset managers is often inadequate and focuses too much on short-term returns, which may lead to suboptimal corporate governance and performance.". While many investors made their best efforts to extend globally their voting universe, they probably failed because they focused too much on the quantity of meetings voted rather than quality of their votes and dialogue, specificities of different countries and companies.

As a consequence, the Directive, which must be implemented in each EU country by June 2019, creates new obligations for both institutional investors and asset managers (§3g).

Investors will have to develop and publicly disclose an **engagement policy** that describes how they integrate shareholder engagement in their investment strategy. The policy shall describe how they monitor investee companies, conduct dialogues with investee companies, exercise voting rights, cooperate with other shareholders and manage potential conflicts of interests.

Institutional investors and asset managers will have, on an annual basis, to publicly disclose an **engagement report** to describe what they did in practice, including a description of voting behavior, an explanation of the most significant votes and the use of the services of proxy advisors. They will have to publicly disclose how they have cast votes in the general meetings of companies in which they hold shares.

Many campaigns from UK or US-based activist funds were led with a short-term view and Europe is trying to build an alternative model. It will be a challenge for European investors which have not devoted enough resources for voting and engagement activities (limited team size for example). To control cost while being successful, European investors will have to mutualize their efforts and to rely on dedicated engagement service providers.

These engagement service providers need a strong local expertise of their respective European country, their companies and public affairs. They should also be fully devoted to investors and not accept any compromise by being also paid by the companies which would create the same types of conflicts of interests that hit the headlines for certain proxy advisors.

With partners in Germany (DSW), Spain (Corporance), Italy (Frontis Governance), the Netherlands (Virv Solutions), Switzerland (Ethos) and France (Proxinvest), **Expert Corporate Governance Service (ECGS), a pan-European partnership of corporate governance and engagement experts, is best-placed to serve investors by providing engagement capabilities**. The launch of this new engagement platform will help investors to fulfill their new engagement duties.

Further information on ECGS's new Engagement Service can be found at **www.ecgs.net**.

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