

# DVFA Stewardship Guidelines

DVFA Commission  
Governance & Stewardship

March 2020



## Governance & Stewardship Commission\*

# DVFA Stewardship Guidelines

### Preamble:

The DVFA Stewardship Guidelines (hereinafter: Guidelines) are based on the legal requirements of German company and investment laws as well as industry standards to provide asset managers with guidance on how stewardship should be understood and implemented. They reflect Stewardship comprising the responsible allocation and active management of assets with the aim of creating sustainable, long-term value for clients including regard for ESG factors. This includes monitoring and active dialogue with portfolio companies, targeted exercise of shareholders' rights and exchange with other asset managers as legally permitted.

For the purpose of these guidelines, stewardship is defined as principles and processes applied by asset managers to fulfil their fiduciary duty, i.e. to act in the best interest of their clients. To achieve this, asset managers have to take the preferences of their clients into account as far as possible in their stewardship activities.

### The Guidelines:

- refer explicitly to asset managers, not to the underlying asset owners or 'institutional investors', but can be applied analogously to them;
- are relevant for active and passive investment strategies as well as for outsourced asset management
- are not confined to equity strategies as they may also apply to fixed income strategies
- shall also make transparent to the portfolio companies the principles of stewardship and engagement activities of their investors;
- are best practice standards that complement regulatory requirements and are intended to provide the investment industry with guidance for the understanding and implementation of stewardship;
- take into account European and German law and are based on the legal requirements of the European Union's Shareholder Rights Directive II, the German Implementation Act (ARUG II), the rules of conduct of the Bundesverband Investment und Asset Management (BVI) and the EFAMA Stewardship Code as well as other established industry standards;
- apply primarily to asset managers and their investment funds domiciled in Germany and regulated under German law. The Guidelines can also be applied to assets managed by foreign asset managers in Germany.

The Guidelines are not limited to equity investment strategies, but may also refer to bond strategies.

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\* The DVFA Governance & Stewardship Commission represents the interests of DVFA members. Commission members are representatives of asset managers, including the big four German investment companies, academia and voting rights experts.

**1. Asset managers set out how they meet their stewardship obligations through their annually updated, publicly available stewardship declaration.**

- In the stewardship declaration, the asset managers explain how they intend to increase and protect the value of their clients' assets in a sustainable fashion.
- The asset managers provide transparency on how they integrate stewardship into their broader investment process, including the organizational structure and management's commitment of compliance.
- Asset managers explain in this context their key responsibilities for stewardship activities that they will regularly review.

**2. Asset managers continuously monitor their portfolio companies.**

- Asset managers analyze market and systemic risks that could lead to a significant loss of the investment.
- Asset managers assess the business situation, performance, long-term potential and risks of their portfolio companies by considering the following aspects:
  - business model, strategy, capital management and business success;
  - environmental/ecological and social responsibility;
  - management/leadership and corporate governance aspects;
  - remuneration and incentive systems;
  - shareholder rights and their observance by the boards;
  - audit and reporting of the portfolio company.
- Asset managers indicate in their stewardship declaration whether in special situations they are prepared to receive insider information.

**3. In the interest of their investors, asset manager enhance the value of the portfolio companies by engaging in a constructive dialogue.**

- For their monitoring activities asset managers develop their own risk-based approach for an engagement with companies. The scope and topics of the engagement depend on the identified risk factors and the type and size of investment in the company.
- Asset managers define a coherent engagement policy based on the topics analyzed, in which they describe their engagement approach. This shall be made public to create transparency for the companies.

**4. Asset managers should provide for an escalation of their stewardship activities if a constructive dialogue with the portfolio company is not possible.**

- Asset managers provide clear guidelines on when and how they intend to escalate their stewardship activities.
- The following measures can be pursued in an escalation process:
  - personal or written communication with the portfolio companies;
  - public statements made before or during the annual general meeting;
  - rejection of proposed resolutions at general meetings;
  - support and formulation of shareholder motions (such as non discharge, special audits and calling for an extraordinary general meeting);
  - filing of shareholder lawsuits.

**5. Voting rights are exercised based on thorough and independent research based on the published voting guidelines of the asset manager, taking into account related costs and benefits in the interest of the asset owners.**

- Asset managers express their expectations regarding the corporate governance of their portfolio companies by publishing their voting guidelines.
- Asset managers describe their voting process and explain under which conditions a deviation from their voting policy can be justified.
- Asset managers describe whether parts of the voting process are outsourced and what role proxy advisors play in the process.
- Asset managers review their voting guidelines annually, taking into account relevant market-specific practices and regulatory changes.

**6. Asset managers publish their voting behavior on their website as expediently as possible after the general meeting.**

- Asset managers disclose on the website which instructions they have submitted..
- Asset managers are not responsible for the transmission of instructions along the custody chain.
- Voting confirmations can only be reported on to the extent that they have been received.

**7. Asset managers should be prepared to cooperate in stewardship activities with other asset managers within the legally applicable framework.**

- In the event of such collective engagement, asset managers observe the market-specific regulations, in particular the legally relevant provisions and interpretations for acting in concert and insider information.
- The cooperation can also take place on general topics without being linked to specific companies.

**8. Internal and external conflicts of interest arising in the context of stewardship activities are dealt with by relevant principles of the asset manager.**

- To meet their fiduciary responsibilities, asset managers have clear principles and appropriate structures to identify and address actual and potential conflicts of interest. The categories of conflicts of interest may include
  - internal conflicts of interest between asset classes and/or investment strategies
  - external conflicts of interest relating to relevant external stakeholders (e.g. clients and asset owners, controlling shareholders).

**9. Asset managers shall describe annually how they fulfil their stewardship obligations and explain and justify non-compliance with the guidelines.**

- The stewardship report deals with the scope, depth of content and key results of the stewardship activities and is not limited to
  - number of engagements,
  - types of engagement,
  - management of conflicts of interest (if any),
  - important general topics.
- The report should also reflect internationally recognized standards.
- Asset managers should specify what they consider results of their stewardship activities.

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<https://www.dvfa.de/der-berufsverband/kommissionen/governance-stewardship.html>

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