

MFs Voice 'Noes' Loudly at Governance Shortfalls

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Mumbai: In a marked departure from their earlier approach to the endorsement of promoter decision-making, governance-focused mutual fund managers are adopting a more assertive stance by actively opposing company resolutions they perceive as detrimental to public shareholders.

Data from primeinfobase.com showed the percentage of votes opposing resolutions soared to a record high of 8.55% in FY24, a notable leap from 7% in FY23 and 4.62% in FY22. This substantial increase aligns their position more closely with the practices observed in developed markets, where institutional investors typically oppose 8-10% of resolutions proposed by companies.

"Mutual funds are now placing strong emphasis on governance in the companies they invest in. Consequently, in many cases, such as related party transactions, royalty issues, and excessive executive compensation packages, they voted against the resolutions," said Nilesh

Shah, CEO of Kotak Mutual Fund. "Previously, mutual funds often abstained from voting in these instances."

Among the 88,323 resolutions recorded in FY23, 7,550 faced opposition, according to available data. To be sure, all data for FY24 are yet to be recorded. Furthermore, in FY24, the proportion of mutual funds (MFs) abstaining from voting was a mere 0.34%, contrasting starkly with the 10%-plus rate seen before FY22. Notably, the percentage of MFs voting against resolutions was 2.35% in FY21, 3.61% in FY2020, and 3.10% in FY2019.

Over the period from FY15 to FY19, the average proportion of MF votes cast against resolutions stood at 3%.

The resolutions most frequently opposed by fund managers pertain to board appointments, extravagant compensation packages for company officials, and misallocation of company funds. These money managers are unmistakably expressing their disapproval by voting against such proposals in shareholder meetings.

"Sebi's Stewardship Code has sparked a significant shift in fund houses' approach to their invest-

ments in companies," said Navneet Munot, chairman of AMFI. "There's a growing recognition that the value of our investments is intricately linked to the principles of corporate governance. It underscores a pivotal moment where responsible investing aligns with long-term value creation."

Last July, several funds having stakes in Adani-owned cement giants ACC and Ambuja Cements voted against adopting the audited financial statements for 2022-23, citing concerns raised by auditors.

Mutual Funds' Voting Trends

Year	Total Resolutions	Resolutions Voted Against	% Dissent
FY18	50,620	936	1.85
FY19	55,944	1,735	3.10
FY20	60,563	2,188	3.61
FY21	50,759	1,191	2.35
FY22	58,632	2,706	4.62
FY23	87,272	6,108	7.00
FY24	88,323	7,550	8.55

Source: primeinfobase.com



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Some mutual funds in Siemens opposed the sale of its low-voltage motors and geared motors business to Siemens Large Drives India, a subsidiary of Siemens AG.

Furthermore, a majority of institutional shareholders at Bharat Forge voted against a resolution to reappoint BN (Baba) Kalyani as the company's managing director. Also, certain funds expressed opposition to related party transactions at Adani Green Energy during the same period.

"In today's landscape, fund mana-

gers are exercising heightened caution, given the close scrutiny from unitholders and regulatory bodies, said Shriram Subramanian, founder of InGovern Research Services, a proxy advisory firm. "Previously, fund managers predominantly opposed controversial resolutions and changes in capital structure. However, their focus has now shifted also towards closely monitoring routine resolutions, including appointments and compensation decisions."

Market regulator Sebi introduced the Stewardship Code for all mutual funds and all categories of alternative investment funds (AIFs) on July 1, 2020, and asked institutional investors like banks, insurance companies, and pension funds to follow the 'transparent' Stewardship Code to be accountable to their clients and beneficiaries. The market regulator mandated that all schemes vote on the resolutions, even if the company's equity shares are passive investments through an index or exchange-traded fund, effective April 1, 2022. Mutual funds can abstain from casting votes only if they do not have any economic interest in the company on the day of voting.