

MFs: 'Against' votes hit a 5-yr high

Shareholder resolutions saw higher opposition, with abstention at 11%

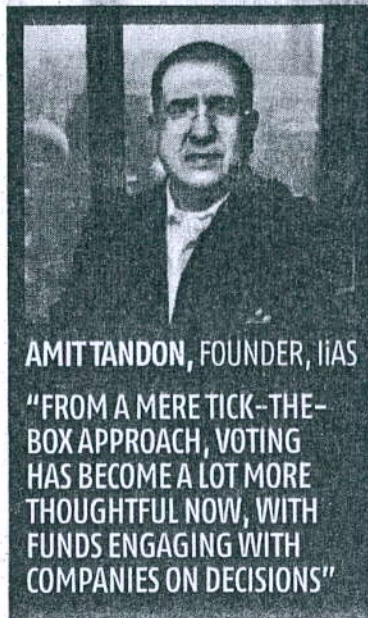
ASHLEY COUTINHO
Mumbai, 19 February

Though mutual funds (MFs) may still be hesitant to take on India Inc head-on, their share of votes against shareholder resolutions has seen an uptick over the previous calendar year.

The percentage of 'against' votes rose to 4.23 per cent in 2019 — the highest in the past five years for which data was analysed. It was 3.4 per cent in 2018. In developed markets, institutional investors typically vote against 5-10 per cent of shareholder resolutions floated by firms.

Only 3.3 per cent votes of the top 10 fund houses, however, were cast against managements. Six of these — Aditya Birla Sun Life, HDFC MF, ICICI Prudential MF, Kotak MF, IDFC MF and Axis MF — cast less than 0.1 per cent of their votes this way, data from primemfdatabase shows. The percentage of 'abstain' votes, on the other hand, dipped to 10.9 per cent last year from 12.5 per cent a year ago. This was a huge reduction from the highs of 80-90 per cent seen in the early 2010s.

"More than half the industry did not vote in the past. Given that, the drop in abstain votes to 11 per cent and the nominal surge in 'against' votes should be viewed very positively," said Dharendra Kumar, chief executive officer, Value



TAKING A STAND

'Against' votes still few and far between, despite rise

	For		Against	
	Number of resolutions	%	Number of resolutions	%
Franklin Templeton MF	7,202	10.3	559	0.8
Nippon India MF	3,816	5.5	83	0.1
Aditya Birla Sun Life MF	3,340	4.8	9	0.0
UTI MF	2,924	4.2	149	0.2
ICICI Prudential MF	2,645	3.8	19	0.0
HDFC MF	2,560	3.7	14	0.0
IDFC MF	2,186	3.1	18	0.0
SBI MF	1,898	2.7	239	0.3
Axis MF	1,726	2.5	45	0.1
Kotak Mahindra MF	762	1.1	8	0.0

Source: primemfdatabase.com

Research. Voting at general meetings is a tool available to minority shareholders to influence decision-making.

"From a mere tick-the-box approach, voting has become a lot more thoughtful now, with funds engaging with companies on decisions they take," said Amit Tandon, founder, IIAS.

The way Indian MFs vote assumes significance, as they have grown in clout over the years. With an equity corpus of over ₹7.8 trillion,

MFs are increasingly dictating market direction. Net MF inflows totalled ₹1.65 trillion in the past two years, about 2.5 times the ₹67,098 crore inflows from foreign portfolio investors.

According to experts, it's not just the percentage but the type of 'against' votes that matter. "Indian institutional investors should take a stand on important corporate matters such as appointment of directors and auditors, rather than confining themselves to matters

pertaining to change in capital structure such as issuance of equity or raising debt," said Shriram Subramanian, founder and MD of InGovem Research Services.

MFs manage liquid assets for several companies. This could, say experts, dissuade fund houses from going against managements, as the companies in question might then withdraw the amounts parked in these funds. Also, many MFs are themselves owned by large corporate houses, which could result in a conflict of interest during voting. "Since more than 50 per cent of the shares are held by promoters in India, voting on resolutions may not yield as much results as, say, in the US, where institutional holding is high," said Kumar.

Franklin Templeton MF, a foreign fund house, has taken the lead in voting on shareholder resolutions. In the past two years, the fund house has voted on about 14,400 resolutions, which is 22 per cent of the total number of resolutions of the top 10 fund houses. It also tops with 1,259 or 8.7 per cent of 'against' votes. A mandatory 'stewardship code' for MFs from April 1 could also help improve participation of funds in shareholder resolutions in future.

"Franklin Templeton has a clearly defined proxy voting policy based on well-known principles of governance such as independence of the board, prudent capital allocation decisions, minority shareholder friendliness and fair practices and adherence to well-established environmental, social and governance principles," said Anand Radhakrishnan, managing director & chief investment officer, Emerging Markets Equity — India, Franklin Templeton.