Large Shareholders in Corporate Governance

Research for the Monitoring Committee Corporate Governance on the role of large shareholders in corporate governance in the Netherlands commissioned by the Ministry of Economic Affairs.

Prof.dr. Abe de Jong

Prof.dr. Dirk Schoenmaker

Mike Gruenwald

Azra Pala

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RSM Erasmus

ERASMUS UNIVERSITY

Summary of the report

Data on blockholdings:

- On average 24.1% of the shares are held by shareholders with a stake of 5% or more, and the average firm has 2.3 blockholders.
- Over the period 2006-2016, the concentration of ownership has decreased, from 34.6% to 24.1% ownership by blockholders. This reduced concentration may affect the potential for long-term oriented shareholders negatively.
- In the Netherlands, financial institutions, including pension funds, are relatively unimportant as blockholders in Dutch-listed companies, while individuals are blockholders with the largest average blocks of shares.
- Further analyses show that 46% of the blockholdings in 2016 have been established more than 10 years earlier.
- There is a trade-off between ownership concentration on the one hand and takeover defenses and liquidity on the other hand: firms with blockholders are less protected by takeover defenses and have lower liquidity.

Survey and interview outcomes:

- The research is based on a survey complemented by in-depth interviews for a selected group of respondents, which are different from the blockholders identified in the first part.
- The survey is largely conducted among Dutch-based investors, while 80% of investors are foreign based. Hedge funds, an important group of short-term oriented and activist investors in Dutch-listed companies, are not included in the survey. This leads to a selection bias towards more long-term investors, which have their headquarters in the Netherlands. This may lead to a bias towards a long-term orientation in the results.

Long-term value creation

- The vast majority of the surveyed investors indicate that they have an investment horizon of at least two years and half of the investors indicate that they have a horizon of more than five years. Pension funds and insurers find long-term oriented goals more important than investment funds. While all investor groups consider financial returns to be important for long-term value creation, pension funds and insurers rank social and environmental factors significantly higher than investment funds.
- Most investors argue that long-term value creation can only be realised by investing in and engaging with companies that are capable of adding value over the long-term, thereby having a positive or *at least* a less negative effect on society. Investors want to contribute to financial stability and add value to the real economy. A very important concept here is “stakeholders”: a company cannot create value over the long-term if it does not take into account the interests of all stakeholders, versus shareholders only.

- The survey shows that all investor groups are primarily motivated by their beneficiaries (asset owners or clients) to pursue long-term value creation. Another important motive is the investment belief that long-term value creation has a positive impact on shareholder returns. Stakeholder oriented investors feel it is their obligation to society and invest significant resources in measuring the benefits of long-term value creation.
- It is easier to pursue long-term value creation for concentrated portfolios rather than (large) diversified portfolios. Moreover, a long investment chain complicates alignment on long-term value creation, while family offices with concentrated investments and a long-term vision (without frequent performance benchmarking) are able to engage effectively with companies on long-term value creation.
- A key barrier to long-term value creation is periodic benchmarking. This is particularly prevalent among investment funds, short-term investors and financially oriented investors. The fact that investors follow a benchmark indicates they are not consciously selecting companies for which they believe that they will add value over the long run. Also pension fund mandates for asset managers are sometimes based on minimising the tracking error with a leading benchmark, while pension fund owners themselves use a time weighted return.
- Respondents' indication that they pursue long-term value creation is inconsistent with the wide-spread practice of measuring performance against a market return benchmark.
- Another barrier is the traditional education of portfolio managers with a strong belief in markets, which can foster short-termism. Next, prudential supervision requires large institutional investors to adhere to a certain risk profile, diversification requirements and financial risk management metrics and questions investors when there are deviations from benchmarks.
- Fiduciary duty is a key concept. International investors indicate that Dutch clients (more than clients in other markets) hold them accountable on ESG factors.

Engagement

- Inadequate corporate governance is an important trigger for shareholder engagement for all investor groups. For investment funds, the most important trigger to become active is underperformance of a company. In contrast, socially irresponsible corporate behaviour is an important trigger for pension funds and insurers and stakeholder oriented investors.
- Engagement is the preferred strategy for all investor groups. Most investors indicate that (continuous) dialogues with portfolio companies are most important. They rather engage in private (behind the scenes) than in public.
- For most large funds, corporate governance specialists decide on the engagement policies, whereas the portfolio managers are responsible for the investment decisions and actual engagement. This can lead to situations in which no integrated decisions are made.

- All investors indicate they make use of collective engagement (with other investors), as they believe this enables them to have a stronger voice. Of critical importance here are regulatory considerations (e.g. acting in concert rules) and finding investors that are like-minded. Collective engagement and collaboration only work if investors have similar investment beliefs. All investors indicate that they make extensive use of Eumedion (and equivalent bodies in other countries) to communicate with other investors.

Conditions for long-term value creation

- The research suggests several conditions for investors to enable them to pursue an investment strategy aimed at long-term value creation. Investors can realise long-term investment returns by investing in and engaging with companies that are capable of adding value over the long-term, thereby having a positive effect on the value of their portfolios and on society.
- A first condition is an intended buy-and-hold approach with a typical holding period of more than five years. This stimulates acting as a steward of the company. The blockholding data of Dutch firms demonstrates that blockholders – with stakes of 5% or more – are long-term shareholders.
- A second condition is an active investment strategy, with a concentrated portfolio. This active investment strategy is often based on fundamental analysis of the invested companies. Blockholders have the voting power to influence firms, while reduced liquidity makes voting with the feet expensive
- A third condition is effective engagement with invested companies on the long-term, both behind the scenes by meeting with companies and in the annual general meeting by voting. This requires human resources, expertise and time.
- A fourth condition is performance analysis based on companies' value-added in the real economy (both financial and societal value). By contrast, a passive benchmark strategy (with minimum tracking error) does not allow (large) deviations from the market benchmark. It is also difficult to have sufficient knowledge about, and really engage with, multiple companies in the benchmark portfolio.
- A fifth condition is alignment of the mandate of the asset owner or client and the asset manager on the long term. The survey indicates that asset managers are primarily motivated by their beneficiaries (asset owners or clients) to pursue long-term value creation. Another important motive is the investment belief that long-term value creation has a positive impact on shareholder returns.
- A sixth condition is to keep the investment chain (between parties and within parties) as short as possible, as each player in the investment chain may hold the next player accountable to a shorter period.
- The development of Dutch firms where ownership concentration is reduced - as reported in the data on blockholdings - thus affects the potential for long-term oriented shareholders negatively. Simultaneously, shareholdings in Dutch corporations are increasingly held by foreign institutional investors with relatively small stakes, which also limits the potential for shareholder engagement with a long-term horizon.

Recommendations:

1. The data on block holdings of Dutch firms may be incomplete. The data quality can be improved by periodic updates of shareholdings by blockholders.
2. Because the concentration of blockholdings in Dutch firms shows a negative correlation with take-over defenses, it is important to take into account in the debate about the protection of exchange-listed firms against hostile takeovers that these protections are most relevant for firms with fewer blockholders.
3. To pursue long-term value creation, it is important that asset owners, asset managers and companies are aligned on a long-term mandate, which includes ESG factors and allows asset managers to take larger stakes and thus deviate from market-based benchmarks.
4. Investors should work alongside other stakeholders, as companies can only create value over the long-term if they take into account the interests of all stakeholders.
5. Investors should have sufficient human resources and expertise to engage with companies on the long-term. Long-term investors could be incentivised through loyalty shares, which provide an additional reward to shareholders if they have held on to their shares during a so-called loyalty period (three, five or ten years).
6. New investment approaches can be achieved through differently educating (young) finance professionals on new investment beliefs, which includes ESG-factors and long-term thinking.
7. The prudential supervisor should avoid encouraging institutional investors to follow the market benchmark and allow active long-term portfolio strategies.
8. Institutional investors should promote internal cooperation between the governance teams and the portfolio managers and ensure a single voice on engagement.

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Chapter 1: Research questions

1.1 Introduction

Large shareholders in corporations are normally long-term shareholders and committed to their role as stakeholder with strategic interests in the firm. On the one hand, large shareholders have the voting power in shareholders' meeting to affect voting outcomes. On the other hand, large shareholders have an interest in the long-term performance of corporations, because under normal conditions, they can only sell their block of shares at a discount. Thus, in corporations, the board and large shareholders face a long-term mutual dependency.

The Dutch Corporate Governance Code Monitoring Committee has emphasised in the most revision of the Dutch Corporate Governance Code the importance of long-term value creation by corporations (Monitoring Commissie Corporate Governance Code, 2016). For such a longer horizon the role of shareholders – and in particular large shareholders – is an important issue, as financiers and owners of the firm's share capital, as well as engagement partners in the shareholder meetings.

The aim of this research report is to document the presence and dynamics of large shareholders in exchange-listed Dutch corporations and to identify the motives and voting behaviour of large investors.

1.2 Research questions

The research question is threefold. For Dutch exchange-listed corporations, we:

1. Identify the dynamics of ownership by large shareholders.
2. Identify the motives of current large shareholders.
3. Identify recent voting behaviour at annual shareholder meetings, in relation to the ownership structure of the corporation.

1.3 Set-up of the study

We first conduct a quantitative study on the type of shareholders and percentage of shareholdings. Using the public register of AFM, the large shareholders (defined as holding 5 percent or more of the shares) of Dutch exchange-listed companies are identified. The types of large shareholders and the size of their shareholdings are specified from 2008 to 2016, building on the earlier study on shareholders from 1992 to 2007 by Van der Elst, De Jong and Raaijmakers (2007). The sums of the large shareholdings are identified using the disclosures

with the AFM. The remaining free float and trading of the shares is also calculated, as the fraction of shares not held by blockholders.[1]

Following the revealed preference theory, we first investigate the preferences of large shareholders by examining their trading activity. A shareholder's trading activity will be measured as the changes in the shareholder's total holding in companies.

Next, the types of shareholders and their motives to hold large shareholdings are investigated. Why are they a large shareholder? Do they care about long-term value creation? How can we see that large shareholders care about long-term value creation? What are the dilemmas for shareholders?

The latter questions are investigated using a survey among a selected set of large shareholders and selected interviews (in particular institutional investors). The Monitoring Committee, Eumedion and DUFAS have assisted in approaching large shareholders.

Finally, we investigate shareholder voting behaviour at a selection of annual shareholder meetings. The voting behaviour will be analysed for relevant agenda items. Where data is available, we will also investigate the arguments used by the different types of shareholders to underpin their voting. The research will extend the earlier work by De Jong, Mertens, Van Oosterhout and Vletter-van Dort (2007) and Bier, Frentrop, Lückerath-Rovers and Melis (2012).

[1] Alternative definitions of free float include corrections for shares held by specific non-blockholding shareholders such as institutional investors. We cannot make these corrections, because this information is not publicly available.

Chapter 2: Large shareholders of Dutch firms: identification, dynamics and characteristics

2.1 Introduction

This chapter describes the ownership structures of Dutch firms in terms of blockholdings by shareholders with a stake of 5% or above. We discuss the 2016 ownership structures as well as dynamics in ownership using a longer sample period.

This description is relevant for the understanding of the role of large shareholders. However, a large part of the equity capital of Dutch firms is held by non-blockholders and a large portion of these shareholders are foreigner (foreign firms and institutions). Over 2007, FESE has reported that 71% of the shares of Dutch firms are held by foreign investors.[2] Eumedion has reported that the 25 firms in the AEX index were in 2010 for 76% owned by foreign institutions, while this percentage was 37% in 1995.[3]

2.2 Data

Ownership data. Ownership data is based on the yearly overview of disclosed block holdings from 1992 onwards published by *Het Financieele Dagblad* and the public database *Wet Financieel Toezicht* (WFT) Register of the Dutch Authority Financial Markets (AFM). Shareholders in Dutch exchange-listed companies are required to report their holdings as soon as their ownership stake crosses, in either direction, one of the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%. Shareholders with ownership stakes below the threshold of 3% are thus not registered. In this report, only those shareholders with an interest of at least 5% are considered to be blockholders. This is mainly due to the international common practice of 5% serving as the threshold for substantial shareholdings and to facilitate a comparison over a longer time period.

Liquidity data. In order to compute the liquidity data for all Dutch listed companies, the number of shares outstanding and weekly trading volumes have been collected from *DATASTREAM*. Additionally, the market values for all companies have been retrieved. For companies with cross-listings, the values from the stock exchange where most of the company's shares have been traded has been selected. Liquidity has been computed by dividing the weekly trading volume by the number of shares outstanding in the respective weeks. Naturally, due to the substantial shareholdings of blockholders, the companies with the most blockholders are expected to exhibit the lowest levels of liquidity.

[2] See FESE (2008).
[3] See Eumedion (2014).

Takeover defenses. The data on takeover defenses present in Dutch corporates has been collected from the *Gids bij de Officiële Prijscourant*, the *Effectengids* and the periodical overview provided by Eumedion. The defenses included in the analysis consist of Protective Preference Shares, Priority Shares, and Certificates. The most common takeover defenses in 2016 were protective preferred shares. This defence mechanism is defined as the existence of a foundation affiliated with the company that owns call options on preferred shares in the company that would dilute the ownership of the existing shareholders by at least 50% upon exercising the option. The purpose of these foundations, or *Stichtingen*, is to ensure the continuity of the company's operations in accordance with the Rhineland stakeholder-model. In the absence of blockholders that own substantial stakes in companies, takeover defenses can be used as a mechanism to shield the companies from unwanted takeovers. They are thus expected to be a substitute for blockholders.

Data Limitations. The year-end ownership levels are derived from shareholders' notifications that are filed throughout the year and come with a set of limitations.

Firstly, shareholders need not report a change in ownership if the change does not cross one of the thresholds established by the AFM. Therefore, the established year-end holdings are in many cases an approximation within the boundaries of two thresholds rather than an exact measure of ownership. However, this approximation is reasonable for three main reasons:

1. Deviations from the reported levels are fairly small due to the large count of the thresholds requiring reporting;
2. Deviations are expected to be random and to equal zero on average;
3. Multiple shareholders have been found to report changes in their ownership levels even without crossing a boundary and thus without being legally required to do so.

Secondly, in case a shareholder does not report a change in ownership, this will affect the data for a longer period, because the cross-section is based on accumulated notifications, not on periodic reporting. In particular, a single unreported divestment by a shareholder has a substantial impact on the ownership stake captured by the analysis. Since ownership levels are derived from reported changes in ownership, a blockholder that divests without reporting its divestment will persist as a blockholder in perpetuity. This results in a systematic risk of overstated ownership. In order to mitigate this risk, the ownership levels resulting from transaction data have been cross-checked using various sources and databases, including the companies' annual reports as well as the *ORBIS* database. We include stakes in case one of the sources mentions the shareholding.

Thirdly, the year-end holdings are a measurement at a single point in time and do not capture significant events that might occur during a particular year. This limitation is particularly notable when evaluating the long-term orientation of institutional investors since investors with a short-term horizon might not be captured by this measure. For instance, an investor that builds up a substantial stake from February through September and sells its stake by December

will not be captured as a blockholder, even though it might have a significant impact on the company and its decision-making process.

2.3 Dynamics of ownership

For 2016 we collect data for 125 firms. These firms are mainly firms incorporated under Dutch law, with their main listing at the Euronext Amsterdam exchange, but the set also includes a small set of non-Dutch firms with ownership reporting requirements because their shares are traded at the Euronext Amsterdam exchange. We include all blockholdings of 5% and above and remove blockholdings related to takeover defenses. Table 2.1 presents the ownership information for 2016. It should be noted that the descriptive statistics are over the full sample of exchange-listed firms and not weighted by market capitalisation.

Table 2.1: Ownership in 2016

	Mean	StDev	Min	Median	Max
Blockholders	24.1	24.1	0.0	16.0	88.7
Free float	75.9	24.1	11.3	84.0	100.0
Number of blockholders	2.3	2.2	0	2	9
Pension funds	0.6	2.3	0.0	0.0	13.3
Venture capitalists	2.5	9.7	0.0	0.0	65.8
Banks	1.6	4.8	0.0	0.0	32.6
Insurance companies	1.4	4.1	0.0	0.0	21.7
Other financials	8.9	13.9	0.0	0.0	76.2
Non-financial firm	2.6	11.2	0.0	0.0	71.2
Persons	6.0	14.2	0.0	0.0	80.8
Government	0.2	1.8	0.0	0.0	19.3
Other/undefined	0.3	1.4	0.0	0.0	10.1

In the set of firms, on average 24.1% of the shares are held by shareholders with a stake of over 5%, which implies that the free float is 75.9%. The variation is large, because our sample includes firms without blockholders and firms that are almost completely held by blockholders. Please note that we are more likely to overestimate blockholdings.

The average (median) firm has 2.3 (2) blockholders, with a standard deviation of 2.2.

The financial institutions (pension funds, insurance companies and banks) are relatively unimportant as blockholders in the Netherlands. The average blockholding is as low as 0.6%, which is consistent with an investment strategy where pension funds aim to hold a well-diversified portfolio, for example similar to major indices. The venture capitalists are important, but these often invest in smaller firms.

The group of blockholders with the largest average block are so-called other financials. These most likely include investment vehicles of individual investors. The next largest is persons, i.e. individual shareholders.

In the Netherlands non-financial firms are not important shareholders (2.6% on average), because cross-holdings are not widespread, compared to for example Italy or France.

In Table 2.2 the evolution of the average ownership over 2006-2016 is shown. The blockholdings have decreased over the eleven years, from 34.6% to 24.1%. In the composition of the ownership structure we also find that in most categories the blockholdings have decreased. The venture capitalists are an exception, although their stakes are relatively small.

Table 2.2: Ownership in 2006-2016

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Blockholders (aggregate)	24.1	26.2	28.4	29.5	28.8	29.5	31.8	35.1	35.6	34.6	34.6
Free float	75.9	73.8	71.6	70.5	71.2	70.5	68.2	64.9	64.4	65.4	65.4
Number of blockholders	2.3	2.6	2.9	3.1	3.0	3.1	3.3	3.3	3.5	3.4	3.3
Pension funds	0.6	0.4	0.7	0.5	0.4	0.4	0.4	0.4	0.9	0.8	0.8
Venture capitalists	2.5	1.9	1.3	1.0	0.6	0.7	0.6	0.9	1.0	1.1	1.2
Banks	1.6	2.2	2.7	2.4	2.6	2.5	3.0	3.0	3.4	3.6	3.9
Insurance companies	1.4	1.8	2.3	2.6	2.7	2.8	2.7	2.7	3.0	2.4	2.4
Other financials	8.9	10.0	9.9	10.7	10.5	10.6	11.9	13.9	14.1	13.7	12.4
Non-financial firms	2.6	2.3	2.6	3.4	3.1	3.3	3.1	3.0	3.0	2.9	3.9
Persons	6.0	6.9	8.1	8.0	7.5	7.8	8.6	9.4	8.8	8.7	9.0
Government	0.2	0.1	0.3	0.3	0.5	0.3	0.2	0.2	0.2	0.2	0.2
Other/undefined	0.3	0.7	0.6	0.7	1.1	1.1	1.3	1.4	1.3	1.2	0.9
Blockholders (aggregate)	24.1	26.2	28.4	29.5	28.8	29.5	31.8	35.1	35.6	34.6	34.6
Observations	125	129	123	119	117	117	119	118	118	122	121

As mentioned before we do not include stakes below the 5% threshold. However, from July 1, 2013 the lowest notification threshold has been changed from 5% to 3% and shareholders were required to disclose any stake between 3% and 5% before July 29, 2013. Of course, our data already includes stakes below 5% for shareholders that disclosed a change in ownership from above to below to 5% threshold. For example in 2011 and 2012 we have found respectively 12 and 15 reported stakes below 5%. From 2013 onwards this number increases rapidly: 47 (2013), 72 (2014), 80 (2015), and 102 (2016). The average ownership percentage of these positions has also decreased from 4.6% and 4.7% in 2011 and 2012 to 4.0% (2013) to 3.7% (2014, 2015 and

2016). These results indicate that the lowering of the threshold has resulted in a better view on the shareholdings of Dutch firms.[4]

So, who are the owners of multiple blocks in Dutch firms? Table 2.3 lists all blockholders with five or more blockholdings in 2016.

Table 2.3: Blockholders in 2016

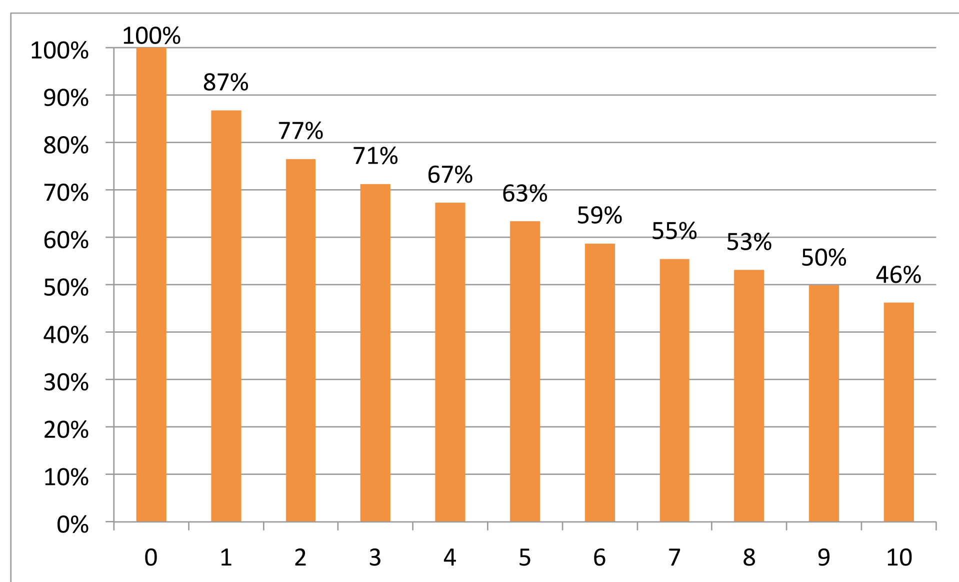
Shareholder	Number of stakes	Average size stake (in %)
Smoorenburg/Navitas B.V.	12	5.5
Delta Lloyd N.V.	9	8.6
ASR Nederland N.V.	9	6.0
Darlin N.V.	6	6.5
Todlin N.V.	6	6.1
NN Group N.V.	5	10.7
Decico B.V.	5	5.9
Value8 N.V.	5	40.7

The insurance companies are frequently seen as blockholders. However, their stakes are relatively small. For example, Delta Lloyd has 9 blocks, with an average size of 8.6%.

Next, we investigate how many years the blockholders have been owning a stake of at least 5%, in 2016. In total we have 303 blockholdings and we trace each blockholding back to 2006 when possible. Figure 2.1 shows the results.

[4] The shareholders with stakes between 3% and 5% include a number of US investors with several positions in Dutch firms, such as Dimensional Fund Advisors LP, State Street Corporation and The Vanguard Group.

Figure 2.1: Holding periods in 2016



After one year (2015), 87% of the blockholdings are still found. In 46% of the 2016 blockholdings we are able to trace the firm-shareholder relation back to 2006, i.e. after 10 years. Of course, this is an underestimation, because some firms are not present in our database over the entire 11 years, blockholders may change names, and positions may be reported late.

2.4 Triangle: ownership, liquidity and one-share-one-vote deviations

Ownership structures cannot be studied in isolation and two obvious characteristics that may relate to ownership concentration and identity are liquidity and one-share-one-vote deviations, i.e. in the Dutch setting (anti-)takeover defenses. Table 2.4 compares concentration and takeover defenses.

Table 2.4: Ownership and protection in 2016

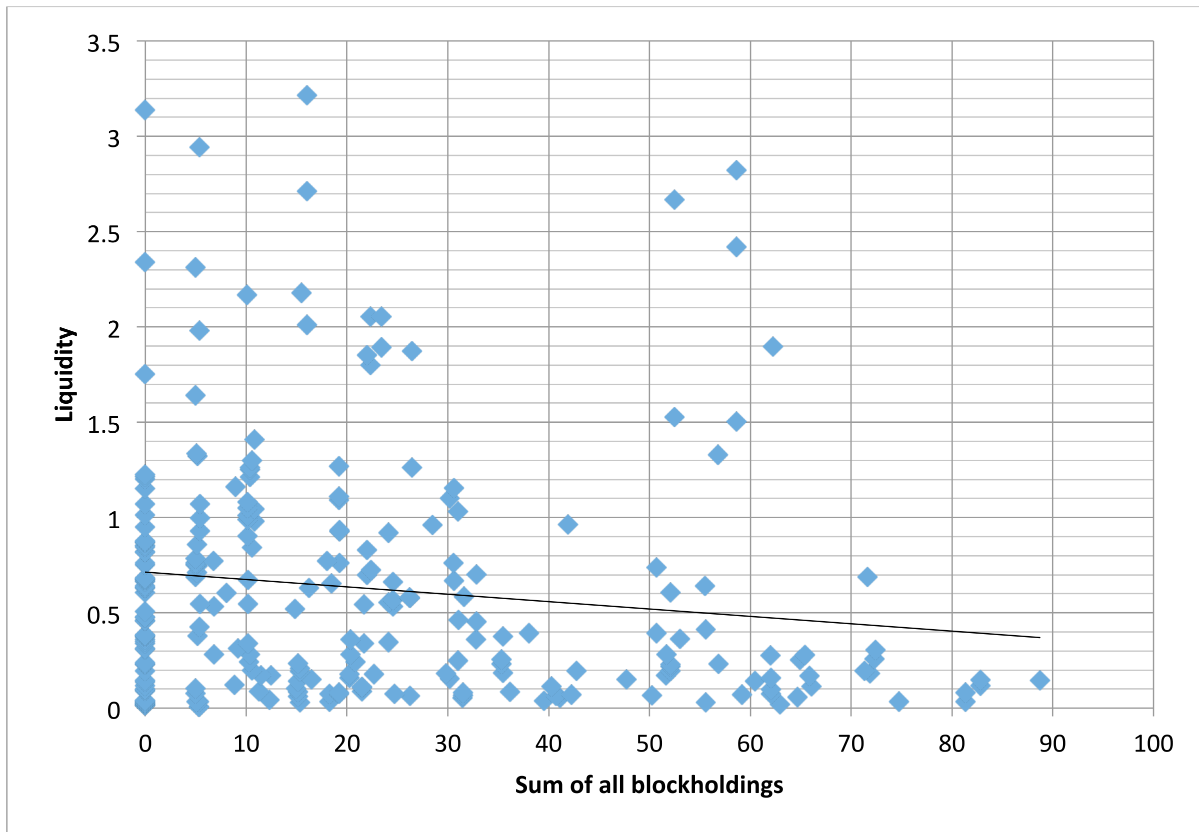
Sum blockholdings	Priority shares	Certificates	Preferred shares
Below 25%	25%	0%	79%
26-50%	16%	19%	46%
Above 50%	13%	13%	35%

Note: The cells indicate the percentage of firms with a defense measure versus sum of blockholdings.

Priority shares are mostly found in firms with fewer blockholdings: 25% in the below 25% group and only 13% in the above 50% group. Firms with priority shares have 46% blockholdings on average, compared to 51% of the firms without priority shares. For certificates the result is not very clear, probably because few firms are still using certificates. Preferred shares as an anti-takeover device are more (79%) used by firms with fewer blockholdings, when compared to majority blockowned firms (35%). This table presents evidence of a trade-off between large shareholders and takeover defenses.

Finally, we investigate the relation between blockholders and liquidity. For the years 2014-2016 we collect from Datastream the share turnover, compared with the number of shares outstanding. In total we obtain information for 252 firm-year observations. In Figure 2.2 we plot the liquidity and the sum of blockholdings.

Figure 2.2: Liquidity and blockholdings in 2014-2016



The results in Figure 2.2 indicate a negative relation. The correlation is -0.13. The figure shows that the observations with high blockholdings (above 65%) have relatively low liquidity.

Chapter 3: Motives and activities of large shareholders

3.1 Introduction

This chapter investigates the types of large shareholders and their motives to hold large shareholdings. The research focuses on the long-term orientation of large investors. What is their investment horizon and do they care about long-term value creation? The behaviour of large shareholder is also investigated. Do they engage with companies or do they exit, when financial and non-financial performance issues emerge?

For our empirical research, we followed a two-step approach. The first step is based on a survey among the large shareholders in Dutch listed companies. To gain more insight in the motives of large shareholders and their views on long-term value creation, the survey is complemented with face-to-face interviews with a selection of key shareholders.

3.2 Survey and characteristics of respondents

The survey is conducted among a selected set of large shareholders (in particular Dutch institutional investors) of Dutch companies. The survey design and questions build on earlier surveys among large shareholders by De Jong, Mertens, Van Oosterhout and Vletter-van Dort (2007), Barton and Wiseman (2014) and McCahery, Sautner and Starks (2016) to ensure proper formulation and comparability. Survey questions are provided in Appendix 1. The survey covers the following elements: investor and investment characteristics, investment assessment and investor engagement. The Monitoring Committee has provided feedback on the survey.

Because the survey is conducted from a portfolio investment perspective, it invites the Chief Investment Officer or another Board Member to complete the survey (on behalf of the company). The institutional investors are contacted via Eumedion and the Dutch Fund and Asset Management Association (DUFAS), whose members cover over 95 percent of the assets under management in the Netherlands. Our sample includes financial investors and the government, but misses the category of persons (see Tables 2.1 and 2.2). 26 responses are received from 116 invitations that have been sent via e-mail, which gives a response rate of 22.4%. This response rate can be considered reasonable compared to similar shareholder surveys, for example 4.3% in McCahery, Sautner and Starks (2016) and 4.6% in De Jong, Mertens, Van Oosterhout and Vletter-van Dort (2007). Although the number of respondents is not high, the targeted approach that is used to contact participants has resulted in an acceptable response rate. The limited number of respondents reflects the size and concentration of the Dutch asset management market.

Respondent characteristics

Table 3.1 provides the respondent characteristics of the 26 respondents that have completed the survey. Panel A shows the investor characteristics. Considering the job titles of respondents, it can be safely assumed that the people completing the survey are knowledgeable about their firm's investment policies, motives and actions as large shareholders. A large part of the respondents are Chief Investment Officers (15%) and portfolio managers (35%) with primary responsibility for the firm's investment policy. This is relevant, as the study is conducted from a portfolio investment perspective. Furthermore, at least half of the respondents are Chief Investment Officers (15%) or Board members (35%), indicating they are senior within their organisation.

Of the types of large shareholders that are represented in the survey, the majority are pension funds (31%). If the asset managers of pension funds are added to this category, they represent the majority of the respondents (58%). Pension fund owners and asset managers are separately included in the survey, because delegated investment management can cause agency problems between the asset owner and the delegated asset manager. Investment objectives, risk appetite, horizons and knowledge are typically not fully aligned, neither across nor within organisations (Schoenmaker, 2017). The low response rate of hedge funds was to be expected, as this type of investor is known to be secretive and therefore less willing to cooperate in such a study. Mutual/investment funds are 27% of the sample, and insurance companies are a small number representing 11%. Table 3.2 shows that pension funds are slightly overrepresented in the survey, while insurance companies are under-represented in the survey.

As our survey is primarily targeted at Dutch investors, Dutch funds are over-represented (92%), with only one respondent from the United States and one from the United Kingdom. Nevertheless - on average - only 21% of the portfolio of the participating investors is invested in the Netherlands. The limited scope and timeframe of this study did not allow an extensive survey among foreign investors in Dutch listed companies. The over-presentation of pension funds and under-presentation of foreign investors (including hedge funds) leads to a selection bias, which affects the results. As pension funds tend be more long-term oriented (reported in our results below), the survey results may reveal longer time horizons than a survey with all types of investors proportionally represented. McCahery, Sautner and Starks (2016) also find that pension funds are overrepresented in their study, arguing that this type of investors is more publicly oriented and is thus more inclined to fill in surveys on this particular topic, while hedge funds are under-represented in their study at 4%. The selection bias may also affect the engagement results, as hedge funds, which are not participating in our survey, are activist investors, also in the Netherlands (Becht, Franks, Grant and Wagner, 2017).

The respondents include very large investors; 35% of the sample (9 respondents) have assets under management of more than €100 billion. According to the Dutch asset manager tables (IPE, 2017), only 7 Dutch institutions have total group assets under management of more than €100 billion in 2016. The fact that these investors are represented is important for the analysis,

as they are likely to have the motives and capabilities to engage with companies and pursue long-term value creation. But the importance of the smaller family offices, which are included under investment funds in our survey, should not be underestimated. When it comes to long-term value creation and impact investing, family offices play a unique and important role due to their desire to align family values with investment decisions and the autonomy with which they can make capital allocation decisions (World Economic Forum, 2014).

Panel B of Table 3.1 reports the investor characteristics. 50% of the respondents have a very long holding period of more than five years and 35% have a long holding period of more than two years. The combined number indicates that 85% of respondents have a long investment horizon. In an international survey of investors based in the United States and Europe, McCahery *et al* (2016) find that 71% have a long holding period of more than two years. Dutch investors are thus found to be more long-term oriented than their international counterparts, which is consistent with the stakeholder-oriented corporate governance model in the Netherlands. The investor horizon is relevant as long-term oriented investors are expected to engage more in long-term value creation and pursue shareholder activities more actively.

Next, respondents were asked to indicate how important they deem stock liquidity. Only 12% of the respondents indicate that it is very important, while 85% indicates that their fund only deems it slightly / moderately important. Again liquidity is less important in the Netherlands. McCahery *et al* (2016) find that 35% of their respondents deem it very important and 53% consider it somewhat important. Furthermore, the respondents in our survey indicate that – on average - 65% of their investments is invested actively versus passively. Larger fractions of investments are invested under a concentrated strategy and fundamental analysis, rather than under a diversified portfolio approach.

Lastly, the average period over which performance reviews are performed is 18 months. Nevertheless, this result is quite dispersed and responses range from 1 month (27%) and 12 months (23%) to 120 months (4%). The period over which performance reviews are conducted can be an important indicator of long-term (or conversely short-term) orientation, as shorter periods give rise to ‘quarterly capitalism’ (Barton and Wiseman, 2014).

Table 3.1: Characteristics of respondents

Panel A: Investor Characteristics		
Job-title respondent	**Observations**	**Percentage**
Chief Investment Officer	4	15
Board Member	9	35
Portfolio Manager	9	35
Corporate Governance or Proxy Voting Specialist	4	15
Total	**26**	**100**
Type of Shareholder	**Observations**	**Percentage**
Pension Fund	8	31
Pension Fund - Asset Manager	7	27
Mutual / Investment Fund	7	27
Bank	0	0
Hedge Fund	0	0
Insurance Company	3	11
Other Financial Institution	1	4
Total	**26**	**100**
Assets Under Management	**Observations**	**Percentage**
Less than €100 million	0	0
Between €100 million and €1 billion	3	12
Between €1 billion and €40 billion	11	42
Between €40 billion and €100 billion	3	12
Between €100 billion and €400 billion	6	23
More than €400 billion	3	12
Total	**26**	**100**
Country of Headquarters	**Observations**	**Percentage**
The Netherlands	24	92
United States	1	4
United Kingdom	1	4
Total	**26**	**100**
Invested in the Netherlands	**Mean**	**Median**
Fraction of portfolio (in percent)	20.8	4

Panel B: Investment Characteristics		
Holding period of Investments (Horizon)	**Observations**	**Percentage**
Very short (less than 1 week)	1	4
Short (less than 6 months)	0	0
Medium (6 to 12 months)	3	12
Long (more than 2 years)	9	35
Very long (more than 5 years)	13	50
Total	**26**	**100**
Importance of Stock Liquidity	**Observations**	**Percentage**
Not at all important	1	4
Slightly important	9	35
Moderately important	13	50
Very important	3	12
Extremely important	0	0
Total	**26**	**100**
Investment strategy	**Mean**	**Median**
Active	**65**	**78**
Active concentrated	25	10
Active diversified portfolio	16	0
Active fundamental analysis	24	5
Passive	**35**	**23**
Actively monitored	27	20
Not actively monitored	8	0
Period of Perfomance Reviews	**Mean**	**Median**
Number of months	18	12

Note: The percentages add vertically up to 100%.

Table 3.2: Division of investor types in the Netherlands (2015)

Investor type	Total assets (in € billion)	Fraction of total assets	Fraction of survey responses
Insurance Companies	€ 477	19%	11%
Investment Funds	€ 762	31%	31%
Pension Funds	€ 1,249	50%	58%

Source: Financial Corporations, Statistical Data Warehouse, European Central Bank.

Note: This table shows how the total assets of the three major investor types are divided in the Netherlands. Column 3 shows the fraction of total assets (sum of the three reported investor groups). Column 4 shows the fraction of survey responses for each investor type.

3.3 Survey outcomes

The survey covers investment assessment (including long-term value creation) and investor engagement (including voice and exit channels). The small sample size and even smaller groups for each investor type place constraints on the analysis that can be performed on the collected data. In order to make a meaningful distinction in the results, the respondents are clustered in different ways. In the first categorisation, pension funds and insurance companies are put in one group (hereinafter 'PFIs') and all other blockholders are put in another group (hereinafter 'Other blockholders' or 'OBs'). Pension funds and insurance companies are put together, because these types of investors have long-term obligations and are subject to considerably more prudential oversight than investment funds.

This initial categorisation is supplemented with two other methods in which the respondents are clustered into two groups. The first method distinguishes investors with a (more) long-term horizon from investors with a more short-term horizon. The categorisation is based on the responses that investors have provided on questions 6 (holding period), 8 (ideal horizon) and 12 (period over which performance reviews are conducted) of the survey. The median score on these questions is calculated: investors who score below the median are in the "short-term" group (ST) and investors whose score is above the median are in the "long-term" group (LT). The second method distinguishes investors who are more financially oriented versus investors who are more stakeholder oriented. This categorisation is based on the responses to the seven items in question 13, which asks respondents to indicate how important various goals are for their fund. Items 1 (making strong financial returns) and 3 (outperforming benchmarks) are indicative of a financial orientation. The score on these financial items relative to the average score on all items is calculated for each respondent. Investors who score above the median score are categorised as "financially oriented" (FIN), whereas investors who score below the median are categorised as "stakeholder oriented" (STH).

Long-term value creation

The first set of questions revolves around investment assessment and long-term value creation. To question 25a, *"does your institution care about long-term value creation",* 100% of the respondents answered yes. Nevertheless, the definition of long-term value creation may differ per respondent and some investors may have answered this question in a politically correct manner. When asked about their definition of long-term value creation (question 17), all respondents highlight the importance of healthy financial returns in excess of the cost of capital, while some also emphasise the goal to contribute to economic stability and sustainable economic growth.

Next, the "*pressure to perform in the short term (less than two years)*" is investigated. Table 3.3 shows no major differences between the groups. The mean hovers around 3, indicating that investors feel on average slightly pressurised to perform in the short term. On "*tolerance*

towards temporary uncertainty", other blockholders and long-term investors are somewhat more tolerant. The sources of pressure are the asset owners and beneficiaries of the fund. This suggests that the mandate given by the owner or the investment objective of the fund is leading for the asset manager.

Table 3.3: Pressure to perform in short-term

	PFIs	OBS	ST	LT	FIN	STH
	Mean		Mean		Mean	
Pressure to perform in short-term (< 2 y)	3.1	2.8	3.1	2.9	3.1	2.9
	Percentage		Percentage		Percentage	
Not at all pressured	11	25	15	15	15	15
Neither pressured nor unpressured	17	13	23	8	15	15
Slightly pressured	28	25	0	54	15	38
Pressured	44	38	62	23	54	31
Extremely pressured	0	0	0	0	0	0
Total observations	**18**	**8**	**13**	**13**	**13**	**13**
	Mean		Mean		Mean	
Tolerance towards temporary uncertainty	3.4	3.9	3.4	3.7	3.5	3.5
	Percentage		Percentage		Percentage	
Very intolerant	0	0	0	0	0	0
Somewhat intolerant	11	13	15	8	15	8
Neither tolerant nor intolerant	44	25	46	31	31	46
Somewhat tolerant	39	25	23	46	38	31
Very tolerant	6	38	15	15	15	15
Total observations	**18**	**8**	**13**	**13**	**13**	**13**
	Percentage		Percentage		Percentage	
Source of Pressure						
Board of directors	17	20	25	11	22	13
Asset owners	25	60	38	33	44	25
Beneficiaries of the fund	33	0	0	44	11	38
Regulators	8	0	0	11	11	0
Others	17	20	38	0	11	25
Total observations	**18**	**8**	**13**	**13**	**13**	**13**

Note: No significantly different means between the two groups. The percentages add vertically up to 100%.

To learn about performance metrics, an open-ended question (11) is used. Responses differ among investors but (international) benchmarks and relative returns (relative to a benchmark) are widely employed. Some pension fund asset owners indicate they use time-weighted returns. At the same time, the performance of pension fund asset managers is measured against a benchmark using metrics such as tracking error. This implies an inconsistency in the chain from asset owner to asset managers and is likely to give rise to principal-agent frictions. Moreover, several respondents include ESG risks in their performance measurement. Some investment funds and insurers use absolute return or total shareholder return. A venture capital fund indicates to look at revenue and EBITDA growth.

In order to gain further insights in long-term value orientation, respondents are asked to indicate how important several goals are for their fund. Table 3.4 presents the survey outcomes, together with a statistical test to what extent the mean score of groups are significantly different[5]. The highest goal scoring for all groups is *"making strong financial returns"*. This makes sense, as all respondents work for financial institutions and their primary goal is generating returns for beneficiaries by investing their money. All groups regard *"good governance"* as an important goal. It is notable that other blockholders, short-term investors and financially oriented investors rate *"outperforming benchmarks"* as significantly more important than the pension funds and insurers, long-term investors and stakeholder oriented investors. This could be a sign these investor groups are less long-term oriented and could cautiously be interpreted as evidence for the fact that "benchmark thinking" is more prevalent within these groups of investors. Next, pension funds and insurers as well as stakeholder oriented investors rate social and environmental impact as significantly more important.

On the composite scales for long-term and short-term goals, again pension funds and insurers and stakeholder oriented investors show a strong preference for long-term value creation, which is statistically different from the respective counterparts (i.e. other blockholders and financially oriented investors). There is surprisingly no difference between short-term and long-term investors.

[5] A Wilcoxon signed-rank test is used, which is a non-parametric test and is chosen over a simple t-test because the data is not normally distributed.

Table 3.4: Importance of long-term value creation goals

-	PFIs	OBS	ST	LT	FIN	STH
	Mean		Mean		Mean	
Importance of goals						
1. Making strong financial returns	4.6	4.9	4.8	4.5	4.9*	4.5*
2. Environmental impact	3.9**	3.1**	3.7	3.7	3.2***	4.2***
3. Outperforming benchmarks	3.4*	4.3*	3.9	3.4	4.4***	2.9***
4. Social (e.g. human rights)	4.1*	3.3*	3.8	3.8	3.4**	4.2**
5. Play a stewardship role	3.5	3.6	3.5	3.5	3.1**	4.0**
6. Employee interests	3.4	3.1	3.2	3.5	3.2	3.5
7. Good governance	4.1	3.9	4.2*	3.8*	3.9	4.2
Total observations	**18**	**8**	**13**	**13**	**13**	**13**
	Mean		Mean		Mean	
Composite scales						
Long-term value creation goals (max = 20)	15.5*	13.4*	14.9	14.8	13.7**	16.0**
Short-term oriented goals (max = 10)	8.0**	9.1**	8.7	7.9	9.2***	7.4***
Total observations	**18**	**8**	**13**	**13**	**13**	**13**
	Percentage		Percentage		Percentage	
Does your fund reject ESG risks						
Yes	89.0	87.5	100.0*	76.9*	84.6	92.3
No	11.0	12.5	0.0	23.1	15.4	7.7
Total observations	**18**	**8**	**13**	**13**	**13**	**13**

Note: * significantly different score between the two groups at 10% level, ** at 5% level, *** at 1% level. The percentages add vertically up to 100%.

The motives for investors to engage in long-term value creation differ. Table 3.5 shows that all investor groups are motivated by their primary beneficiaries to pursue long-term value creation. Pension funds and insurers "*base their decisions on a thorough cost-benefit analysis"* and are *"inspired by their professional networks"*. Stakeholder oriented investors "*feel it is their obligation to society*" and "*invest significant resources in measuring the benefits of long-term value creation*". Interestingly, this investor group also "*pursue long-term value creation as insurance against uncertainty*". Finally, all investor groups "*know that long-term value creation has a positive impact on shareholder returns*".

Table 3.5: Motives of large shareholders

	PFIs	OBS	ST	LT	FIN	STH
	Mean		Mean		Mean	
Motives to engage in LTVC						
(1) Decisions are based on a thorough cost-benefit analysis	4.1**	3.1**	3.6	3.9	3.5	4.1
(2) We know that LTVC has a postive impact with shareholder returns	4.5	4.6	4.6	4.5	4.5	4.5
(3) Our activieties to pursue LTVC are influenced by other institutional investors	2.9	2.7	2.7	2.9	3.1	2.6
(4) Our primary beneficiaries want us to pursue LTVC	4.2	4.3	4.1	4.3	4.1	4.3
(5) We invest significant resources in measuring the benefits of LTVC	3.1	3.3	3.4	3.0	2.8*	3.5*
(6) The new Corporate Governance code or NGOs prompt us to pursue LTVC	2.9	2.7	2.9	2.9	2.9	2.8
(7) Pursuing LTVC is our insurance against uncertainty	3.7	3.9	3.8	3.7	3.6**	3.9**
(8) We assume but have no proof that LTVC has a postive impact on sh. returns	3.0	2.4	2.9	2.8	2.7	3.0
(9) We feel pressure from our stakeholders to pursue LTVC	3.4	3.1	3.4	3.3	3.2	3.5
(10) We feel it is our obligation to society to pursue LTVC	4.0	3.3	3.8	3.8	3.4*	4.2*
(11) Professional networks inspire us to pursue LTVC	3.3*	2.4*	3.0	3.1	3.0	3.1
Total observations	**17**	**7**	**11**	**13**	**12**	**12**

Note: * significantly different score between the two groups at 10% level, ** at 5% level. 2 respondents did not answer this question.

Shareholder engagement

The second set of questions concern shareholder engagement. Starting with the characteristics of targeted companies, Table 3.6 shows the results. For pension funds and insurers, the most important company characteristic is when that company is experiencing corporate governance issues. This is in line with the findings from de Jong, Mertens, Van Oosterhout and Vletter-van Dort (2007). For the other blockholders, the most important characteristic to become active is an underperforming company. Next, stakeholder oriented investors target companies more for engagement "*when the level of insider ownership in the target is higher*". An important characteristic for all investor groups is the size of "*our investment in the target is relatively large to our total investments*", which is understandable.

Table 3.6: Characteristics targeted companies

	PFIs	OBS	ST	LT	FIN	STH
	Mean		Mean		Mean	
We tend to become more active…						
…with companies that are experiencing corporate governance issues	4.2	4.3	4.3	4.1	4.1	4.3
…when we hold a larger % of total outstanding voting rights of the target	3.3	4.0	3.4	3.6	3.8	3.2
…when we know that other investors are also active in the target company	2.9	3.1	2.9	3.0	2.8	3.1
…when the level of insider ownership in the target is higher	2.7	2.9	2.4**	3.1**	2.8	2.8
…when the level of institutional ownership in the target is higher	2.8	3.1	2.8	2.9	2.9	2.9
…when our investment in the target is relatively large to our total investments	3.4	3.9	3.3	3.7	3.6	3.5
…on the shares of companies we know well	3.2	3.9	3.3	3.5	3.4	3.4
…on the shares of companies with whom we do not have close business ties	2.5	2.9	2.3	2.9	2.5	2.7
…with companies that are underperforming	3.6*	4.4*	3.8	3.8	3.7	4.0
Total observations	**18**	**8**	**13**	**13**	**13**	**13**

Note: * significantly different score between the two groups at 10% level, ** at 5% level.

Respondents were asked to indicate their top four triggers for shareholder engagement. Table 3.7 indicates again that *"inadequate corporate governance"* emerges as the most important trigger for all investor groups. This is consistent with the findings of McCahery, Sautner and Starks (2016). The other triggers differ across the groups. "*Corporate fraud*" and "*management compensation*" are important triggers for pension funds and insurers and stakeholder-oriented investors. For other blockholders, "*poor corporate strategy*" is an important trigger. Finally, "*Socially irresponsible corporate behaviour (e.g. pollution)*" is an important trigger for pension funds and insurers, long-term and stakeholder oriented investors, indicating that these investors groups rate social and environmental factors more than their respective counterpart groups.

So, Table 3.6 is about the selection of companies that are targeted and Table 3.7 about the triggers for engagement. There is some overlap, for example in the case of companies with corporate governance issues or underperformance.

Table 3.7: Triggers for shareholder engagement

	PFIs	OBs	ST	LT	FIN	STH
	% of top 4		% of top 4		% of top 4	
Triggers for Shareholder Engagement						
Poor absolute financial performance	11	38	15	23	31	8
Poor corporate strategy	28	63	31	46	46	31
Excessive management compensation	67	0	54	38	31	62
Earnings restatement	17	0	23	0	0	23
Large negative earnings surprise	11	0	0	15	8	8
Low payments to shareholders despite high cash holdings	6	0	0	8	8	0
Inadequate corporate governance	83	63	69	85	77	77
Uncooperative management	0	25	8	8	8	8
Poor financial performance relative to peers	28	38	31	31	38	23
Large equity issuance	0	0	0	0	0	0
Large diversifying merger or acquisition	17	38	15	31	15	31
Suboptimal capital structure	6	38	23	8	23	8
The threat of major shareholders to sell shares	0	0	0	0	0	0
Corporate fraud	56	13	46	38	31**	54**
Socially "irresponsible" corporate behaviour (e.g. pollution)	67	25	46	62	38	69
Other	0	0	0	0	0	0
Total observations	**18**	**8**	**13**	**13**	**13**	**13**

Note: Respondents indicate their top four triggers for shareholder engagement. * significantly different score between the two groups at 10% level, ** at 5% level.

Moving to the preferred strategy, Table 3.8 reports the various strategies. As many respondents indicate they use a combination of strategies, we construct a composite variable for engagement (based on a full weight on the engagement variable and a half weight on the combined variable). It appears that engagement is by far the preferred strategy for all investor groups, with a slightly higher score for pension funds and insurers, long-term investors and stakeholder oriented investors. These latter groups have a slight preference for "*inclusion*", while their counterparts (investment funds, short-term investors and financial oriented investors) have a slight preference for a "*best in class approach*". About half of the investors belief that the threat of exit is effective.

Most investors belief that a minimum stake in the company of 2% is needed to be effective (bottom panel of Table 3.8). That is line with a recent report on the investment strategy of the Norwegian Government Pension Fund (Kapoor, 2017). The Norwegian Fund follows a passive benchmark strategy with a maximum allowable tracking error of 1%, investing in close to 9,000 companies. Kapoor (2017) observes that the Norwegian Fund does not know enough about what the companies it invests in get up to. Moreover, the average stake is 1.3% of companies

worldwide. Kapoor (2017) concludes that the Norwegian Fund lacks the capacity (in terms of expertise and minimum stake) to engage actively and change practice.

Table 3.8: Preferred strategy

	PFIs	OBS	ST	LT	FIN	STH
	%		%		%	
Preferred Strategy						
Exclusion	11	0	8	8	8	8
Inclusion	6	0	0	8	0	8
Engagement	44	50	31	62	46	46
Confrontation	0	0	0	0	0	0
Best-in-class approach	0	13	0	8	8	0
Combination of the above strategies	39	25	54	15	31	38
None of the above	0	13	8	0	8	0
Composite engagement	**64**	**63**	**58**	**69**	**62**	**65**
Threat of Exit Effective						
Yes	50	38	54	38	38	54
No	50	63	46	62	62	46
Minimum stake size to be effective						
Doesn't matter	44	0	68	0	25	43
At least 0.5%	11	0	0	20	0	14
At least 2%	33	100	17	80	75	29
At least 5%	0	0	0	0	0	0
At least 10%	11	0	17	0	0	14
Total observations	**18**	**8**	**13**	**13**	**13**	**13**

Note: Composite engagement = engagement + 0.5 x combination of above strategies. The percentages add vertically up to 100%.

The results for prevalence of several voice and exit channels are contained in Table 3.9. The results are presented in the order in which they appear in the survey. As the responses that occur first are not necessarily those that are chosen most often, it is unlikely that the "primacy effect" bias is present here. The results show a high level of engagement, because only 4% has not taken any measures of shareholder engagement. Table 3.9 shows that *"discussions with top management" at board level* (73%), *"voting against management"* (73%) and *"writing a letter to management"* (62%) are the most important engagement channels. These channels are consistent with the results of McCahery, Sautner and Starks (2016). Next, *"selling shares because of dissatisfaction with performance"* (58%) and *"selling shares because of dissatisfaction with social or environmental practices"* (54%) are important exit channels. The

use of the engagement channel *"discussions with the Board of Directors*[6] *outside of management"* (54%) is consistent with the finding by McCahery, Sautner and Starks (2016) that investors first try to engage with firms behind the scenes and only take public measures if these private discussions fail. It also explains why *"publicly criticising management in the media*" ranks so low.

Hedge funds, which are not included in our survey, are important activist investors, engaging with target companies. De Jong, Roosenboom, Verbeek and Verwijmeren (2007) report on hedge fund activism in the Netherlands from 1985 till 2007. The intentions of hedge funds refer to a change in corporate strategy (35%), sale or company split (38%), influence intended take-over (12%), change in governance structure (8%) and more dividend or share buy-back (15%). In a more recent international survey (including the Netherlands) from 2000 till 2010, Becht, Franks, Grant and Wagner (2017) find that almost one-quarter of hedge fund engagements are by multi-activists engaging the same target. These engagements perform better than single activist engagements.

Table 3.9: Prevalence of voice and exit channels

Number in survey	Measures of Shareholder Engagement Taken in the Past 5 Years	Percentage that took this measure
1	None	4%
2	Selling shares because of dissatisfaction with performance	58%
3	Selling shares because of dissatisfaction with corporate governance practices	50%
4	**Voting against management at the annual meeting (AGM)**	**73%**
5	Selling shares because of dissatisfaction with social or environmental practices	54%
6	Publicly criticising management in the media	19%
7	Legal action against management (e.g. file a lawsuit, participate in a class action)	35%
8	Submitting shareholder proposals for the proxy statement	31%
9	Discussions with members of the Board of Directors outside of management	54%
10	**Discussions with top management**	**73%**
11	Criticizing management and the board at the annual meeting (AGM)	35%
12	Publicising a dissenting vote	27%
13	**Writing a letter to management**	**62%**
14	Aggressively questioning management in a conference call	15%
15	Proposing specific actions to management (e.g. sell assets, fire the CEO)	46%
16	Other	19%
	Total observations	**26**

Note: The most important engagement channels are in bold.

[6] The Board of Directors is here without the non-executive members.

Other issues

The survey also covers the use of proxy advisors. Table 3.10 indicates that 69% of respondents make use of an external proxy advisor before the Annual General Meeting of shareholders (AGM). Investors use the proxy advice to determine their own position. This is in line with McCahery, Sautner and Starks (2016), who find that investors report that proxy advisors help them make better voting decisions, but that they remain their own decision makers. ISS and Glass-Lewis are the most important proxy advisors.

Table 3.10: Use of proxy advisors

	Total Percentage
Use of external proxy advisor before AGM	
Always	42
That depends on the company	12
That depends on the agenda item	8
That depends on the circumstances	8
Never	31
Extent to which advice is fully used	
Follow advice fully	6
Take into account to determine own position	90
Take into account in case of doubts	0
Other	6
Which advisor	
ISS	27
Glass-Lewis	12
Undisclosed	50
Other	12
Shares held back to short-sell	
Fraction of shares (%)	2.4
Total observations	**26**

Note: The percentages add vertically up to 100%.

Next, the survey examines legal arrangements or take-over defenses. Table 3.11 report that pyramid structures and dual-class shares are prohibitive; a majority of investors would not invest in companies with this type of legal arrangement. Priority shares and loyalty voting rights are only for 36% of respondents a reason not to invest. Finally, investors are largely (72%) indifferent about certificates and anti-takeover preferred shares.

Table 3.11: Legal arrangements

	We would not invest	We are indifferent	More likely to invest
	Percentage	Percentage	Percentage
Legal Arrangements			
Binding nomination	16	84	0
Anti-takeover preferred shares	24	72	4
Certificates	24	72	4
Priority shares	36	64	0
Loyalty voting rights	36	64	0
Pyramid structure	52	48	0
Dual-class shares	44	56	0
Total observations	**25**	**25**	**25**

Note: The percentages add horizontally up to 100%.

3.4 Interviews

Face-to-face interviews provide in-depth qualitative data that is a very powerful addition to the quantitative data provided by the survey. The survey identifies motives, engagement triggers and methods in a structured way, whereas the interviews are used to provide some of the detail and the narrative of how concepts are applied and what potential bottlenecks and dilemmas investors face in the process of adopting a long-term perspective. Long-term value creation can still be considered a relatively qualitative concept requiring qualitative performance measures (Barton & Wiseman, 2014). The format is a semi-structured interview and participants are provided with a topic guide that includes six themes that define the area that will be exploited (long-term value creation). For each of the themes a concept map is developed depicting the most important concepts that emerged during the interviews.

The interviews took place in July and August 2017. The aim of the selection procedure is to select the most knowledgeable informants from a diverse variety of institutional investors. In total ten large shareholders of Dutch exchange-listed companies participated in the interviews, whereby the different blockholder types are represented. The results do not identify any company or individual name of interview participants.

Definition of long-term value creation

On the definition of long-term value creation, all investors indicate that a high and stable financial return is their most important goal. Second, a remark that recurred during a majority of the interviews is that investors view “long-term value creation” as a broad and sometimes even “all-purpose” concept. Nevertheless, most investors argue that long-term returns can only be realised by investing in and engaging with companies that are capable of adding value over

the long-term, thereby having a positive or *at least* a less negative effect on society. Investors want to contribute to financial stability and add value to the real economy, which is done by taking into account more than only financial factors. A very important concept here is "stakeholders": a company cannot create value over the long-term if it does not take into account the interests of all stakeholders versus shareholders only. ESG factors are mentioned in every interview.

Additionally, one of the insurance companies sees long-term value creation as a way to reduce its risk. It indicates that companies, which pay attention to for example ESG factors, are better capable of managing their risks and therefore considered to be more attractive investment opportunities.

Most investors consider long-term as being "more than five years". Larger investors indicate that equity capital or "shares" as an asset class are, by default, more short-term and liquid than other asset classes. One commercial investment fund was quite an exception when answering this question. This fund views a "three year horizon" as already very long, indicating that: *"as an investor, you are only as good as your last year's performance"*. This investor indicates that clients exert pressure on them to perform well in the short-term. This subsequently induces them to chase "momentum" and invest in companies that are doing well, even though these companies might not be the best investments over a longer horizon. They fear that if they fail to do this, their clients will simply go to another fund.

Conversely, other (oftentimes smaller) investors point to a horizon of ten years or more. This distinction is important. Looking across all interviews, it is evident that the extent to which long-term goals are *really* pursued by an investor depends on the business model, investment belief and the mandate the investor has been given by asset owners/clients. Most funds argue it is easier to pursue long-term value creation for concentrated portfolios rather than (large) diversified portfolios. Family offices and smaller investment funds indicate that their concentrated portfolio enables them to engage in constant dialogues with a selected set of companies. They are able to compensate their "lack" of diversification with exceptional knowledge about the firms they are invested in.

Lastly, one large investment fund and one large pension fund asset manager argued that not only active investments are geared towards the long-term. They provide the contrarian argument, pleading that passive investments are by definition long-term: *"as a passive investor, you cannot sell. You are invested in companies as long as they constitute the index and for large Dutch firms, this can be decades. We need to work with companies on achieving long-term changes. As long as companies are making progress, we can be patient, because we will be at the table with them year after year after year.*"

Performance Metrics Used to Assess Portfolio Companies

One can distinguish between two broad types of investment strategies. The more passive investment strategies that are tracking an index use metrics, such as tracking error, information ratio and Sharpe ratio. Funds with clients who have longer-term obligations indicate that their clients (asset owners) assess their fund's performance based on longer-term (i.e. five-year) returns. Even though this is a considerably lengthy period, the fact that investors follow a benchmark indicates they are not consciously selecting companies for which they believe that they will add value over the long run. One large pension fund (asset manager) indicates that, depending on the mandate of the asset owner, it does sometimes have some flexibility to adjust benchmarks and add ESG factors for example.

Most investors believe transparency and disclosure from portfolio companies is very important. When considering the period of performance reviews, one large passive investment fund indicates that: *"we are not saying that quarterly reporting is completely wrong by definition. We just think that the language around it needs to be changed: more forward-looking in relation to the long-term strategy, rather than observed in vacuum".* On the other hand, a large active investment funds has an opposite view saying: *"because we as an investor have a long-term horizon, performance also needs to be assessed on the long-term*". This fund also includes the performance evaluation of its own asset managers (discussed at the sub-section Barriers below).

The other, more active investment strategies are those that use fundamental analysis based on a company's cash flows, return on invested capital, EBITDA margins and growth prospects. All these metrics are used to arrive at the intrinsic value of a company. Since one cannot observe fundamental metrics beyond a three/five year horizon, one insurance company indicates it does a valuation and then places this value within the context of longer term trends for the company / sector / market and subsequently applies a discount or a premium.

All investors highly value trust and capable (reliable) management, even though this point is most strongly emphasized by the more concentrated investment funds (for example Family Offices). Having a concentrated portfolio enables these investors to engage in constant dialogues with management.

Interestingly, the more active portfolios seem to have a more flexible mandate. They are not "punished" by their asset owners for (temporary) deviations from benchmarks and their performance is neither judged on absolute, nor relative returns. They look past (short-term) swings in the stock price, but more at the intrinsic value of the company. Nevertheless, when looking over the long-term, all these active investors indicated they have outperformed benchmarks significantly. They believe that it is a proven investment philosophy that works. The tension that is created by benchmarks is also highlighted by large pension fund asset managers: *"you cannot invest for the long-term by fundamentally assessing firms AND at the same time be judged by asset owners on your performance versus a benchmark"*. Proponents of the long-term strategy point to the fact that investors need to let go of these benchmarks and

merely use them as a *"reference index"*. One investment fund even calls active investments *"benchmark agnostic"* and indicates that value creation on the long-term is a combination between economic profit, stock market returns and ESG factors.

All investors indicate that they increasingly use ESG factors such as CO_2 emissions, governance issues and human rights when valuing, selecting and assessing companies. Nearly all investors explicitly indicate that companies which care about *and* perform well on these dimensions, will also create more financial value in the long-run: *"For us, ESG is not a tick-the-box element"*. Most investors use self-developed ESG indicators whereas some others rely on scores from, for example, Sustainalitics. Various investors indicate that more standardised measures or examples of "best practices" or "KPIs" could be beneficial for the industry.

Motives to engage in long-term value creation

Because of the long-term nature of their obligations, pension funds and insurance companies want to make sure that the asset side is also capable of creating value on a long horizon. All investors mention the instrumental motives: they invest in order to generate returns and they believe that investing in sustainable companies with a solid business model will enable them to keep generating these returns long horizons (more than five years). Over the years, the instrumental (financial) motives have been complemented with additional motives, such as the will to achieve change and retaining the social license to operate by having a positive impact on society.

One of the most important determinants is the "investment belief" or the "investment ethos" that is ingrained in an institution. This can be seen as an intrinsic motivation. Some investors simply have the strong investment belief that responsible investing (and investing for the long-term) coincides with strong financial returns. Moreover, a long-term focus is better for clients and companies. Once this belief is deeply rooted in the strategy of the firm, it can be put into practice without repeatedly being questioned. One of the interviewees indicates: *"It is our responsibility to be stewards of capital"*.

Another key driver to invest in long-term value creation is client demand (or the wishes/ mandates of asset owners). Investing is effectively a service business and client demand is a very important consideration when deciding on the strategy that will be pursued. Hence, fiduciary duty is a key concept. Interestingly, international interviewees indicate that they are increasingly held accountable by Dutch clients; more than in other markets. Not only to the extent to which they are committed to ESG, but also to the extent to which ESG influences their portfolios.

Lastly, other factors providing additional guidance on this matter are for example the Corporate Governance Code, the United Nations Principles or Responsible Investments (PRI), or other movements such as Focusing Capital on the Long-Term. Most investors have signed or became part of one or multiple of these initiatives, thereby signalling their commitment.

Engagement mechanisms

Engagement consists of a number of subsequent steps, but it does not seem that the exact methods differ across investor types. The frequency and how the methods are employed do differ. Most investors indicate to actively pursue SRI (sustainable, responsible impact investing) engagement. One widely used mechanism is exclusion. Thus, excluded companies are already in advance not considered for investments (e.g. tobacco industry). One pension fund (asset manager) did indicate that extending the list of "excluded companies" does mean that portfolios deviate from benchmarks more, and this is not something that all portfolio managers are equally excited about. Most investors also use (positive) screening. For example, when deciding to invest in an oil and gas company, they pick the company with the strongest ESG performance.

Different performance metrics (financial and non-financial) are used to assess companies and determine which companies need to be targeted. The larger funds indicate that engagement is primarily driven by the more active holdings, as it is impossible to engage in a dialogue with thousands of portfolio companies. Voting rights are used extensively (with almost every company), as these are considered to be the primary rights of shareholders.

Most investors indicate that (constant) dialogues with portfolio companies are most important. They rather engage in private (behind the scenes) than in public engagement. Even the AGM is not seen as the most interesting moment for engagement. More important is the period running up to the AGM. Only few investors have indicated that they have recently used the media to publicly communicate their viewpoint on a certain matter. Media attention is often not considered as supportive of long-term goals.

For most large funds, the corporate governance specialists decide on the engagement policy, whereas the portfolio managers take the investment decisions and are responsible for the actual engagement. This can lead to situations in which no integrated decisions are made. All investors indicate they make use of collective engagement (with other investors), as they believe this enables them to have a stronger voice. Of critical importance here are regulatory considerations (e.g. acting in concert rules) and finding investors that are like-minded. Collective engagement and collaboration only work if investors have similar investment beliefs. All investors indicate that they make extensive use of Eumedion (and equivalent bodies in other countries) to communicate with other investors. These dialogues stimulate relationships and trust among investors. Engagement with Dutch companies is considered as very pleasant by most investors, due to the proximity of management and good governance practices.

On the concept of exit, a distinction is made between active investments and passive investments that follow a benchmark. For active investments, most investors will *only* exit after an extensive period of engagement (if they believe in the company). Sometimes, if investors deem a business model to be "broken", they will exit earlier. More commercial investment

funds are more inclined to exit if companies are underperforming (i.e. their share is underperforming) but for all investors holds that "trust" is considered to be of critical importance. Threat of exit is not something investors use explicitly, especially not publicly: often companies are already aware of the situation as constructive conversations take place in an earlier stage. Multiple interviewees referred to the "carrot and stick" idiom, indicating they try to use the carrot more than the stick. But if things are really not working out, exit is inevitable. Not following through would undermine investors' credibility.

Family offices have smaller, more concentrated portfolios and large stakes in the companies they invest in. They see themselves as cooperative and constructive shareholders, having dialogues with companies on a daily basis. These funds explicitly indicate to prefer engaging behind the scenes. Interestingly, family offices indicate they do not feel *"exit pressure"*: they can remain invested in companies they believe in, even if these companies are temporarily underperforming or suffering from a crisis. Often these funds have a turn-over of only one or two companies a year. This is possible because the fund's performance is not related to an annual benchmark: the structure and investment strategy of these funds enables them to be true long-term investors. This approach is more suitable for small to medium size enterprises. For large companies turn-overs are much more frequent because these companies are much more liquid and can be influenced less by individual investors.

Barriers when focusing capital on the long-term

The social system in which investors operate is very complex. Investors need to simultaneously balance the interests of many different stakeholders, such as their asset owners, their regulators, the companies they are invested in and their own board of directors. Already eight years ago, Kemna and Van de Loo (2009) highlighted strategic, informational, social-emotional and procedural complexity, which is still prominent today.

On external barriers, an often mentioned barrier is prudential supervision and (legal) restrictions placed upon investors by regulators. The Dutch prudential supervisor (DNB) requires large institutional investors to adhere to a certain risk profile, diversification requirements and financial risk management metrics. As argued by one the respondents, the Dutch supervisor even explicitly penalises pension funds for using active management, with higher solvency requirements in its new FTK regulatory framework. An exception is made for equity portfolios that have a tracking error of less than 1%. Insurance companies explicitly mention Solvency II. These constraints in turn pressure investors into generating short-term returns, rather than focusing on long-term investments. It is known that the use of short-term benchmarks enhances short-termism, but pension funds and insurance companies are not allowed to simply choose another (non-standard) benchmark. One must not only be willing but also able to be patient and accept (temporary) set-backs in stock performance of portfolio companies. According to investors, outcomes of longer-term strategies are more ambiguous

and their risk is often harder to measure (volatility is a short-term metric). It is hard to accept more uncertainty while still adhering to the regulatory frameworks.

As a result of several prominent take-over attempts in the first half of 2017, tensions have emerged in the Netherlands. Dutch politics is looking into ways of protecting companies from hostile take-overs and making sure that management has sufficient time to respond in case of a (hostile) bid, for example by means of a legal time-out or cooling-off period. More time means management can take deliberate decisions in the best interests of all stakeholders. Nevertheless, not all investors are equally happy about these developments. During the interviews, some investors (both Dutch and foreign) have indicated their concerns, as they are afraid that the introduction of new legislation might lead to an erosion of shareholder rights. During cooling-off periods for example, shareholders might be blocked from engagement. This would even hold for very long-term shareholders that have been with the company for decades. One interviewee said: *"Effectively, we cannot do our job if we don't have the tools to hold companies accountable. Shareholder rights are being slowly eroded for various reasons. And when you take away our rights, then the only option is to sell. This is not ideal because it creates short-termism"*.

The next external barrier is disclosure by portfolio companies. It is hard for investors to form a long-term view of a company and assess their potential, if they are not given the information that enables them to do that. All companies use different methods to report ESG factors for example. A more standardised approach would be beneficial.

Investors also need to take the mandate of their asset owners and the wishes of their clients into careful consideration. This is the most important determinant of the investment strategy that is pursued. Asset owners may judge an investors' performance based on a short-term benchmark or put more emphasis on strong financial rather than socially responsible performance. Investors need to adhere to these wishes. Thus, key here is that the triangular interests between asset owner, asset manager and company are aligned. Therefore, in order to truly maintain a long-term focus, it is important for all three actors to have long-term goals. According to one insurance company: *"we are evaluated by our clients. Asset managers cannot move without asset owners moving preferably beforehand or at least at the same time"*. Another clear example of this is family offices: they indicate that they do not experience any of these barriers as they deal with less regulatory issues and have a very flexible mandate. For them, the chain from asset owner to asset manager is short and works efficiently.

The last external barrier is the monthly performance rankings between investors. The media compares investment funds with each other on one, three and six months intervals and makes all sorts of rankings. This is not supportive of a long-term focus but gives rise to short-termism.

Looking at more internal barriers, an important one is compensation. Out-performance often yields high fees, and this inevitably stimulates asset managers to have a more short-term orientation. Compensation is a very powerful tool to align incentives and stimulate a change in behaviour. One large investment fund indicates it maintains a longer-term horizon by having a

balanced performance strategy for evaluation. It says: *"you need to walk the talk, so internally we assess our products by evaluating portfolio managers based on a combination of 1, 3 and 5-year performance where most weight is placed on 3 year performance and 1 and 5 years are equally important."*

Another barrier is that actively investing in and engaging with companies also requires more feet on the ground and inevitably costs more time and money. Lastly, many asset managers have been educated classically and most professionals have been conditioned into a certain way of thinking. Our brains are "wired" towards the short-term. Therefore a fund's investment belief is critical. Investors who truly have a long-term horizon must be patient and must also signal to their asset managers that they are in support of a long-term strategy: the plug cannot be pulled at the first signs of under-performance. We must dare to let go of the conventional way of thinking and this requires a paradigm shift.

The future of focusing capital on the long-term

A paradigm shift is needed and this can be achieved through differently educating new (finance) professionals. Not only the universities but also the CFA program are important in this. Sustainable finance must not be viewed as a separate branch, but as an integral part of finance. Next, incentives need to be aligned. Not only internally towards asset managers by adjusting their compensation structure, but also externally between all the players in the complex social system. Important here are companies, which need to work on their disclosure, and regulators which need to adjust their policies and remove current obstacles that hinder long-term investment.

One additional solution mentioned by an investment fund is that they could start offering new products that are closed-ended. This type of product deters impatient clients as they cannot get out on a daily basis but need to commit their capital for a longer period. It could possible cause a better match between the investment philosophy of clients and investors.

Lastly, according to one interviewee who is a strong proponent of focusing capital on the long-term, a new model is needed. *"A long-term oriented mandate is needed between asset owners, asset managers and companies. This model needs to include an entirely new framework of the types of KPIs, benchmarks, risk management tools, incentives and bonuses that are used"*.

Relation to survey

In the survey, all investors answer that they care about long-term value creation. In practice, the interviewed investors indicate they consider financial motives as being the most important determinant to invest in long-term value creation. This is in line with the results presented in Table 3.4 of the survey results. The finding makes common sense, as generating returns is what investing is about. Therefore valuing financial goals does not necessarily need to imply a short-

term focus. Nevertheless, what distinguishes truly long-term oriented investors from other investors is the emphasis they put on other stakeholders (the wider stakeholder model; also taking into account social and environmental factors for example). Many investors explicitly mention stakeholders when they are asked to provide their definition of long-term value creation. In the survey, pension funds and insurers score these factors higher. Also, in the interviews, different types of investors mention that pension funds and insurers are front-runners when it comes to sustainable investing practices.

Interviews disclose that the mandate of asset owners / obligation towards clients is the most important determinant of investment strategies. This is in line with the results from Table 3.5, indicating that the wishes of the primary beneficiaries are an important motive to pursue long-term value creation. It also stresses the importance of having aligned triangular interests between asset owners, asset managers and companies in order to escape from "short-termism".

Lastly, another result from the survey that is emphasised in the interviews is that investors prefer behind the scenes (private) engagement over public engagement. Trust and cooperation with management are found to be very important, and this has increased in the last couple of years. So not only are company managers more open to collaborate with large, engaged investors but also investors themselves are mutually engaging in dialogues. In the Netherlands, Eumedion is considered as the most effective platform for this.

3.5 Voting behaviour

Ideally, this study would include the voting behaviour of large shareholders of Dutch firms at the shareholder meetings. In the US, institutional investors are required to disclose their voting for each firm and per agenda item. Also in the Dutch setting this information is available for large institutional investors. We have contacted ISS, the largest data warehouse on voting, but they could not provide voting data for blockolders in Dutch firms to us. Although we have been able to find evidence of Dutch shareholders disclosing information about voting, this only applies to a minority of the blockholdings, which would lead to an unreliable sample for inferences about shareholder voting behaviour. We therefore prefer not to discuss the voting behaviour.

Chapter 4: Conclusions

4.1 Summary of findings

Blockholdings

On average 24.1% of the shares are held by shareholders with a stake of 5% or more, and the average firm has 2.3 blockholders. Over the period 2006-2016, the concentration of ownership has decreased, from 34.6% to 24.1% ownership by blockholders. In the Netherlands, financial institutions, including pension funds, are relatively unimportant as blockholders in Dutch-listed companies, while individuals are blockholders with the largest average blocks of shares. Further analyses show that 46% of the blockholdings in 2016 have been established more than 10 years earlier. There is a trade-off between ownership concentration on the one hand and takeover defenses and liquidty on the other hand: firms with blockholders are less protected by takeover defenses and have lower liquidity.

The development over the past decade is interesting, because concentrated shareholdings facilitate a long-term orientation (see section 4.3). Blockholders have the voting power to influence firms, while reduced liquidity makes voting with the feet expensive. The development for Dutch firms where ownership concentration is reduced thus affects the potential for long-term oriented shareholders negatively. Simultaneously, shareholdings in Dutch corporations are increasingly held by foreign institutional investors with relatively small stakes, which also limits the potential for shareholder engagement with a long-term horizon.

Survey and interview outcomes

Long-term value creation

The vast majority of the surveyed investors indicate that they have an investment horizon of at least two years and half of the investors indicate that they have a horizon of more than five years. Pension funds and insurers find long-term oriented goals more important than investment funds. While all investor groups consider financial returns to be important for long-term value creation, pension funds and insurers rank social and environmental factors significantly higher than investment funds.

Most investors argue that long-term value creation can only be realised by investing in and engaging with companies that are capable of adding value over the long-term, thereby having a positive or *at least* a less negative effect on society. Investors want to contribute to financial stability and add value to the real economy. A very important concept here is “stakeholders”: a

company cannot create value over the long-term if it does not take into account the interests of all stakeholders versus shareholders only.

The survey shows that all investor groups are primarily motivated by their beneficiaries (asset owners or clients) to pursue long-term value creation. Another important motive is the investment belief that long-term value creation has a positive impact on shareholder returns. Stakeholder oriented investors feel it is their obligation to society and invest significant resources in measuring the benefits of long-term value creation.

It is easier to pursue long-term value creation for concentrated portfolios rather than (large) diversified portfolios. Moreover, a long investment chain complicates alignment on long-term value creation, while family offices with concentrated investments and a long-term vision (without frequent performance benchmarking) are able to engage effectively with companies on long-term value creation.

A key barrier to long-term value creation is periodic benchmarking. This is particularly prevalent among investment funds, short-term investors and financially oriented investors. The fact that investors follow a benchmark indicates they are not consciously selecting companies for which they believe that they will add value over the long run. Also pension fund mandates for asset managers are sometimes based on minimising the tracking error with a leading benchmark, while pension fund owners themselves use a time weighted return. Respondents' indication that they pursue long-term value creation is inconsistent with the wide- spread practice of measuring performance against a market return benchmark.

Another barrier is the traditional education of portfolio managers with a strong belief in markets, which can foster short-termism. Next, prudential supervision requires large institutional investors to adhere to a certain risk profile, diversification requirements and financial risk management metrics and questions investors when there are deviations from benchmarks.

Fiduciary duty is a key concept. International investors indicate that Dutch clients (more than clients in other markets) hold them accountable on ESG factors.

Engagement

Inadequate corporate governance is an important trigger for shareholder engagement for all investor groups. For investment funds, the most important trigger to become active is underperformance of a company. In contrast, socially irresponsible corporate behaviour is an important trigger for pension funds and insurers and stakeholder oriented investors.

Engagement is the preferred strategy for all investor groups. Most investors indicate that (continuous) dialogues with portfolio companies are most important. They rather engage in private (behind the scenes) than in public.

For most large funds, the corporate governance specialists decide on the engagement policies, whereas the portfolio managers are responsible for the investment decisions and actual engagement. This can lead to situations in which no integrated decisions are made.

All investors indicate they make use of collective engagement (with other investors), as they believe this enables them to have a stronger voice. Of critical importance here are regulatory considerations (e.g. acting in concert rules) and finding investors that are like-minded. Collective engagement and collaboration only work if investors have similar investment beliefs. All investors indicate that they make extensive use of Eumedion (and equivalent bodies in other countries) to communicate with other investors.

4.2 Approach and limitations

The blockholder data obtained from WFT notifications offers a reasonable overview of the shares of 5% and above and since 2013 also for stakes in the 3-5% range. However, due to the absence of periodic confirmations of the ownership information, the data may include inaccuracies.

While the survey provides the opportunity to quantitatively analyse data, it is very difficult to extend the findings to “all blockholders” of Dutch exchange-listed companies. As explained in Chapter 3, the respondent group is biased towards the more long-term investors, which have their headquarters in the Netherlands. Besides the targeting of participants via Eumedion and DUFAS, another cause for the overrepresentation of these investors is the fact that they are more interested in and inclined to participate in a survey on this particular topic. Hedge funds, which are more short-term oriented and activist shareholders, are not included in our survey. This leads to a selection bias.

Next, participants may be concerned with confidentiality and anonymity of their responses. In surveying the opinion of large shareholders, they may also be inclined to answer in a strategic or untruthful way. In particular, if the survey is completed by corporate governance specialist, one faces the risk of obtaining politically correct answers on how the investors *wants* its policy to look like, rather than the actual investment decisions that are taken by portfolio managers. In order to partially overcome these limitations, communication towards participants on how the data is handled and the importance of confidentiality is very clearly and repeatedly stated and participants have received an official letter from the Monitoring Committee enclosed in the e-mail invitation for the survey. Furthermore, the survey specifies that the research is conducted from a portfolio investment perspective and invites the Chief Investment Officer or another Board Member to complete the survey and in the face-to-face interviews, questions are asked from an asset management perspective.

Finally, large shareholders operate in complex social systems consisting of many different stakeholders whose interests need to be balanced. Therefore it is difficult to identify the ‘view’ of the shareholder and the important factors precisely.

4.3 Conditions for long-term value creation

From our study, we distil several conditions for investors to enable them to pursue an investment strategy aimed at long-term value creation. Investors can realise long-term investment returns by investing in and engaging with companies that are capable of adding value over the long-term, thereby having a positive effect on the value of their portfolios and on society.

A first condition is an intended buy-and-hold approach with a typical holding period of more than five years. This stimulates acting as a steward of the company. The description of the blockholding data of Dutch firms demonstrates that blockholders – with stakes of 5% or more – are long-term shareholders.

A second condition is an active investment strategy, with a concentrated portfolio. This active investment strategy is often based on fundamental analysis of the invested companies.

A third condition is effective engagement with invested companies on the long-term, both behind the scenes by meeting with companies and in the annual general meeting by voting. This requires human resources, expertise and time.

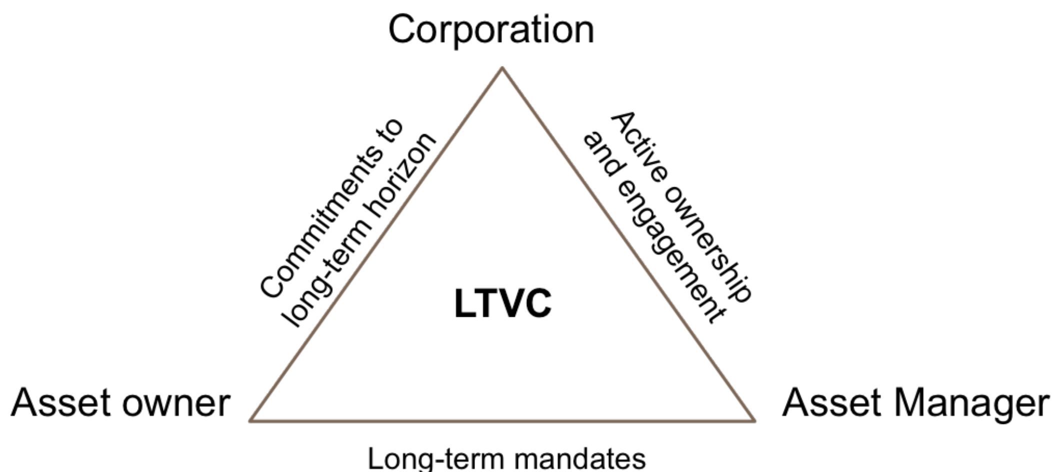
A fourth condition is performance analysis based on companies' value-added in the real economy (both financial and societal value). By contrast, a passive benchmark strategy (with minimum tracking error) does not allow (large) deviations from the market benchmark. It is also difficult to have sufficient knowledge about, and really engage with, multiple companies in the benchmark portfolio.

A fifth condition is alignment of the mandate of the asset owner or client and the asset manager. Our survey indicates that asset managers are primarily motivated by their beneficiaries (asset owners or clients) to pursue long-term value creation. Another important motive is the investment belief that long-term value creation has a positive impact on shareholder returns.

A sixth condition is to keep the investment chain (between parties and within parties) as short as possible, as each player in the investment chain may hold the next player accountable to a shorter period.

Figure 4.1 illustrates the alignment in the investment chain on long-term value creation (FCLT, 2015). The asset owner provides a long-term mandate to the asset manager and commits to a long-term horizon. The asset manager has an active ownership stake (as part of a concentrated portfolio) and engages with companies on the long term.

Figure 4.1: Alignment in the investment chain on LTVC



Source: Adapted from FCLT (2015)

4.4 Recommendations

Based on the analysis in this report, we make the following recommendations to strengthen long-term value creation:

1. The data on block holdings of Dutch firms may be incomplete. The data quality can be improved by periodic updates of shareholdings by blockholders.
2. Because the concentration of blockholdings in Dutch firms shows a negative correlation with take-over defenses, it is important to take into account in the debate about the protection of exchange-listed firms against hostile takeovers that these protectons are most relevant for firms with fewer blockholders.
3. To pursue long-term value creation, it is important that asset owners, asset managers and companies are aligned on a long-term mandate, which includes ESG factors and allows asset managers to take larger stakes and thus deviate from market-based benchmarks.
4. Investors should work alongside other stakeholders, as companies can only create value over the long-term if they take into account the interests of all stakeholders.
5. Investors should have sufficient human resources and expertise to engage with companies on the long-term. Long-term investors could be incentivised through loyalty

shares, which provide an additional reward to shareholders if they have held on to their shares during a so-called loyalty period (three, five or ten years).[7]

6. New investment approaches can be achieved through differently educating (young) finance professionals on new investment beliefs, which includes ESG-factors and long-term thinking.
7. The prudential supervisor should avoid encouraging institutional investors to follow the market benchmark and allow active long-term portfolio strategies.
8. Institutional investors should promote internal cooperation between the governance teams and the portfolio managers and ensure a single voice on engagement.

[7] At the implementation, the lessons learned from current practices (e.g. loyalty shares given to the founder or controlling shareholder) should be taken into account so that large shareholders feel comfortable to be eligible for loyalty shares. Moreover, there should be no need to register shares to be eligible for loyalty shares.

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Appendix - Survey

Large Shareholders in Dutch Exchange-listed Companies

Intro

The Dutch **Corporate Governance Code Monitoring Committee** monitors compliance of Dutch listed companies and institutional investors with the Dutch Corporate Governance Code. The Committee also ensures that the Corporate Governance Code is practicable and up-to-date. This survey is conducted by the Rotterdam School of Management of the Erasmus University and seeks to assess the motives of large shareholders in Dutch exchange-listed companies. The survey is executed from a **portfolio investment perspective**, therefore we invite the CIO or another board member to complete the survey.

We take the **confidentiality** of your responses very seriously. Rotterdam School of Management will not share your responses with anyone, nor will individual firms or respondents be identified. If you would like to comment on any question in the survey, please do so at the dedicated space at the end of the survey.

End of Block

Investor Characteristics

Q1 What is your **position** or **job title**?

○ Chief Investment Officer (1)

○ Board Member (2)

○ Portfolio Manager (3)

○ Corporate Governance or Proxy Voting Specialist (4)

○ Other, please specify: (5) ____

Q2 What **type** of shareholder is your institution?

- ◯ Pension Fund (1)
- ◯ Pension Fund - Asset Manager (2)
- ◯ Mutual / Investment Fund (3)
- ◯ Bank (4)
- ◯ Hedge Fund (5)
- ◯ Insurance Company (6)
- ◯ Other Financial Institution (7)
- ◯ Other, please specify: (8) ____

Q3 Please indicate the value of your institution's total **Assets Under Management**

- ◯ Less than €100 million (1)
- ◯ Between €100 million and €1 billion (2)
- ◯ Between €1 billion and €40 billion (3)
- ◯ Between €40 billion and €100 billion (4)
- ◯ Between €100 billion and €400 billion (5)
- ◯ More than €400 billion (6)

Q4 What fraction of your equity portfolio is invested in **the Netherlands**? Please answer in percentage points

____

Q5 In what country are your **headquarters** based?

- The Netherlands (1)
- United States (US) (2)
- United Kingdom (UK) (3)
- Rest of Continental Europe (4)
- Rest of the World (5)

End of Block

Investment Characteristics

Q6 What is the typical **holding period** for investments in your portfolio, on average?

- Very short (less than 1 week) (1)
- Short (less than 6 months) (2)
- Medium (6 to 12 months) (3)
- Long (more than 2 years) (4)
- Very long (more than 5 years) (5)

Q7 Please indicate what percentage *(0-100%)* of share capital your institution invests under the following **investment strategies:**

An active, **concentrated** investment strategy : _______ (1)
An active, **diversified portfolio** strategy : _______ (2)
An active, diversified strategy via **quantitative / fundamental** analysis : _______ (3)
A passive (buy & hold) strategy, but **actively** monitored : _______ (4)
A passive (buy & hold) strategy but **not** actively monitored : _______ (5)

Total : ________

Q8 Please indicate your opinion with regards to the following statement: *"In setting my investment strategy, I believe the ideal investment horizon is more than 2-4 years"*.

- Strongly agree (1)
- Somewhat agree (2)
- Neither agree nor disagree (3)
- Somewhat disagree (4)
- Strongly disagree (5)

Q9 When you consider buying or selling shares, how important is the **liquidity** of the shares?

- Extremely important (1)
- Very important (2)
- Moderately important (3)
- Slightly important (4)
- Not at all important (5)

Q10 Within **how many** exchange-listed Dutch corporations is your fund a **blockholder**? (A blockholder has an equity ownership stake of >5% within the corporation).

____

End of Block

Investment Assessment

Q11 What **metrics** do you use to **review the performance** of your investments?

____

____

Q12 How long is the **period of time** over which you **conduct performance reviews** of your investments? Please answer in *number of months*.

____

Q13 To what extent are the following goals **important** for your fund?

	Extremely important (1)	Very important (2)	Moderately important (3)	Slightly important (4)	Not at all important (5)
Making strong financial returns (1)	○	○	○	○	○
Environmental impact (e.g. climate change and biodiversity loss) (2)	○	○	○	○	○
Outperforming benchmarks (3)	○	○	○	○	○
Social (e.g. to prevent child labor, encourage equality, ensure human rights) (4)	○	○	○	○	○
Play a stewardship role in support of longer-term corporate strategies (5)	○	○	○	○	○
Interests of employees (6)	○	○	○	○	○
Good governance (7)	○	○	○	○	○

Q14a To what extent do you feel **pressured** to demonstrate strong financial performance over a period of 2 years or less?

- Extremely pressured (1)
- Pressured (2)
- Slightly pressured (3)
- Neither pressured nor unpressured (4)
- **Not** at all pressured (5)

Q14b Where does this pressure stem from?

- Board of Directors (1)
- Asset Owners (2)
- Beneficiaries of the Fund (3)
- Regulators (4)
- Others, please specify: (5) ____

Q15 Does your fund **reject** investment opportunities if they involve ESG risks?

- Yes (1)
- No (2)

Q16 Please indicate to what extent you feel your institution is tolerant towards portfolio companies that are experiencing temporary (financial or governance related) uncertainty?

- Very tolerant (1)
- Somewhat tolerant (2)
- Neither tolerant nor **in**tolerant (3)
- Somewhat **in**tolerant (4)
- Very **in**tolerant (5)

Q17 Please briefly describe your definition of the concept of **long-term value creation**

____

____

End of Block

Investment Engagement

Q18a To what extent do you as an investor make use of **external proxy voting advisors** when determining how to vote in a Dutch annual meeting (AGM)?

- Always (1)
- That depends on the company (2)
- That depends on the agenda item (3)
- That depends on the circumstances (4)
- Never (5)

Q18b To what extent is the advice of the proxy voting firm used?

- ◯ Follow advice fully (1)
- ◯ Determine own position by taking the advice into account (2)
- ◯ Only take into account the advise in case of own doubts (3)
- ◯ Other, please specify: (4) ____

Q18c What advisor do you use?

____

Q18d What fraction of your shares do you hold back during the Annual General Meeting (AGM) to sell or short sell? Please answer in percentage points

____

Q19 What measures of shareholder **engagement** have you taken in the *past five years* with *any* of your portfolio companies? Choose all that apply

None (1)

Selling shares because of dissatisfaction with performance (2)

Selling shares because of dissatisfaction with corporate governance practices (3)

Voting against management at the annual meeting (AGM) (4)

Selling shares because of dissatisfaction with corporate social or environmental practices (5)

Publicly criticizing management in the media (6)

Legal action against management (e.g. file a lawsuit, participate in a class action) (7)

Submitting shareholder proposals for the proxy statement (8)

Discussions with members of the Board of Directors outside of Management (9)

Discussion with top management (10)

Criticizing management and the board at the annual meeting (AGM) (11)

Publicizing a dissenting vote (12)

Writing a letter to management (13)

Aggressively questioning management in a conference call (14)

Proposing specific actions to management (e.g., sell assets, fire the CEO, stop equity offering) Please indicate the proposed action: (15)

Other, please specify: (16) ____

Q20 Which of the following strategies is **preferred** by your fund? Choose *only one* option.

- Exclusion (1)
- Inclusion (2)
- Engagement (3)
- Confrontation (4)
- Best-in-Class Approach (5)
- Combination of the above strategies (6)
- None of the above (7)

Q21a Do you believe that the **threat of selling** shares, rather than exit itself, is an effective disciplining mechanism for management?

- Yes (1)
- No (2)

Q21b What is the minimum stake size a fund needs to have for it to be effective?

- Doesn't matter (1)
- At least 0.5% (2)
- At least 2% (3)
- At least 5% (4)
- At least 10% (5)

Q22 In order to identify **characteristics** of portfolio companies that are usually targeted for activism by your institution, please indicate the degree to which you agree with the following statements as they apply to your institution. We tend to become more active...

	Strongly agree (1)	Somewhat agree (2)	Neither agree nor disagree (3)	Somewhat disagree (4)	Strongly disagree (5)
...with companies that are experiencing Corporate Governance issues (1)	○	○	○	○	○
...when we hold a larger percentage of total outstanding voting rights of the target company (2)	○	○	○	○	○
...when we know that other investors are also active in the target company (3)	○	○	○	○	○
...when the level of insider ownership in the target company is higher (4)	○	○	○	○	○
...when the level of institutional ownership in the target company is higher (5)	○	○	○	○	○
...when our investment in the target company is relatively large to our total investment (6)	○	○	○	○	○
...on the shares of companies we know well (7)	○	○	○	○	○
...on the shares of companies with whom we do not have close business ties (8)	○	○	○	○	○
…with companies that are under performing (9)	○	○	○	○	○

Q23 Which of the following corporate governance events or policies do you view as the **top four** triggers for shareholder engagement? (Please rank #1, #2, #3, #4)

______ Poor absolute financial performance (1)
______ Poor corporate strategy (2)
______ Excessive management compensation (3)
______ Earnings restatement (4)
______ Large negative earnings surprise (5)
______ Low payments to shareholders despite high cash holdings (6)
______ Inadequate corporate governance (7)
______ Uncooperative management (8)
______ Poor financial performance relative to peers (9)
______ Large equity issuance (10)
______ Large diversifying merger or acquisition (11)
______ Suboptimal capital structure (12)
______ The threat of major shareholders to sell shares (13)
______ Corporate fraud (14)
______ Socially "irresponsible" corporate behavior (e.g. human rights violations or pollution) (15)
______ Other, please specify (16)

Q24a Please provide your opinion on the following legal arrangements that Dutch firms may have

	We would not invest (1)	We are indifferent (2)	We would be more likely to invest (3)
Binding nomination (1)	○	○	○
Anti-takeover preferred shares (2)	○	○	○
Certificates (3)	○	○	○
Priority shares (4)	○	○	○
Loyalty voting rights (5)	○	○	○
Pyramid structure (6)	○	○	○
Dual-class shares (7)	○	○	○

Q24b Give your view on the legal arrangements *in the previous question*. Do these arrangements enhance a **long-term** value perspective?

____

____

Q25a Does your institution care about long-term value creation?

○ Yes (1)

○ No (2)

Q25b This question relates to the reasons why your institution decides to pursue a strategy of long-term value creation. Please indicate to what extent you agree with the following statements.

	Strongly agree (1)	Somewhat agree (2)	Neither agree nor disagree (3)	Somewhat disagree (4)	Strongly disagree (5)
Our decisions to pursue long-term value creation are based on a thorough cost-benefit analysis (1)	○	○	○	○	○
We know that long-term value creation has a positive relationship with shareholder returns (2)	○	○	○	○	○
The activities of other institutional investors influence our activities as a shareholder (3)	○	○	○	○	○
We feel that our primary beneficiaries want us to pursue long-term value creation (4)	○	○	○	○	○
We invest significant resources in measuring the benefits of pursuing a long-term strategy (5)	○	○	○	○	○

The new Corporate Governance Code or societal associations (NGOs) prompt us to pursue a long-term value creation strategy (6)	○	○	○	○	○
A long-term value creation strategy is our insurance against uncertainty (7)	○	○	○	○	○
We assume but have no proof that long-term value creation has a positive relationship with total shareholder returns (8)	○	○	○	○	○
We feel pressures from our stakeholders to pursue a long-term value creation strategy (9)	○	○	○	○	○
We feel it is our obligation to society to pursue long term-value creation (10)	○	○	○	○	○
Professional networks inspire us to engage in long-term value creation (11)	○	○	○	○	○

End of Block

Closing Questions

In case you would be interested in receiving the results of this survey, please fill in your e-mail.

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Were any of the questions unclear or do you have any other suggestions or remarks?

____

____

End of Block

End of survey – Thank you very much for your participation