

Foreign Ownership in Danish Shares – Consequences for the Listed Companies?



A MILESTONE IN 2014

Foreign ownership in Danish listed companies

Since January 2014 the foreign ownership in Danish listed companies has passed beyond the milestone of 50%, reaching nearly **53% in October 2014**.

Ignoring minor fluctuations since 2010, this could be seen as a trend of increasing and consistent interest in Danish companies. For comparison the foreign ownership percentages in the other Nordic countries as per end of September 2014 are

- Finland 45.53%
- Sweden 41.2 %
- Norway 35.84 %

The international investors are not making their decisions to invest based on macro economic reasons only, but it is very likely that Denmark is seen as a safe harbour with a stable economy in many aspects. Likewise, several Danish listed companies provide stable and reliable financial governance notwithstanding the financial development in the world. Corporate Governance plays an increasing role when an international institutional investor makes its decision to invest, so having updated the **Danish Corporate Governance Code** recently to better align with current international best practice does make a difference.

International share % of Danish equity portfolios
(market value)



Source: VP SECURITIES, vp.INDIKATOR.

Clearly the foreign investors primarily invest in the NASDAQ C20 index companies, about 89% of the market value in October 2014 as per **VP SECURITIES monthly newsletter**. Consequently the 50+% foreign shareholders do not affect all companies. It is noteworthy to mention that some international institutional investors do not necessarily have an in-depth understanding of the company, their history and their intentions for the future. Some of these investors have thousands of companies globally in their portfolio



across funds, and therefore the companies are not always thoroughly evaluated based on non-financial criteria when included in the portfolio.

Stewardship – Active Shareholder Ownership

Not so many years ago, the general picture was that international institutional investors did not involve themselves too much in the governance of their investee companies, unless in the presence of concerning issues. However, in 2010, this changed with the **Stewardship Code** established in the UK to motivate investors to engage more in their investee companies. Stewardship Codes have been implemented in 9 other countries worldwide, and several more countries are considering implementing such principles, including Denmark. In addition EU directive proposals to be adapted into future Danish legislation will also accommodate for active ownership governance by shareholders.

2014 – Nasdaq C20

Including Danish companies with considerable free float

452 resolutions submitted to votes in 22 companies

- Average AGM participation : 53,35%
- 7 AGAINST recommendations from ISS (1,5%), in 4 companies
- 18 companies did not receive any AGAINST recommendations

The institutional investors have implemented their stewardship duties in different ways and in varying tempo. The forefront of investors have their own corporate governance policies whereas others have a more pragmatic approach and outsource their duties to an investment advisor or rely on **proxy advisors** like ISS, Glass Lewis and others to exercise their obligations as owners in a listed company. So the list of foreign investors can cover a variety of opinions and behaviours to interact with the companies. The company is not really able to anticipate the intentions of all of its

shareholders before they make a decision as to supporting (or not) the company's proposals.

As per our research of C20 listed companies at Nasdaq the impact of ISS negative recommendations at the AGM's in 2014 in Denmark is not significant and quite outstandingly low compared to other European countries. The recently **updated Danish Corporate Governance Code** might have catered for some generic misalignments.

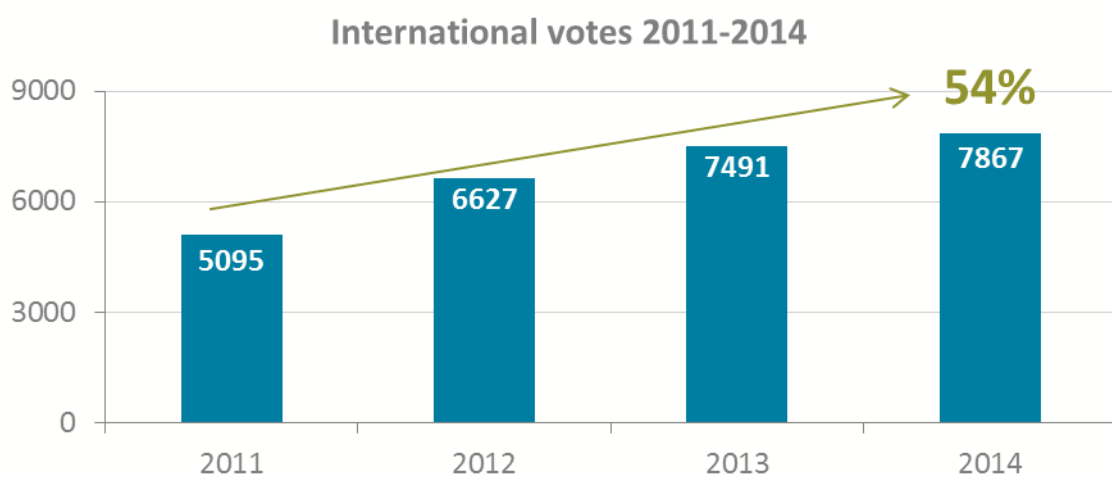
Does it matter – whether the company have many or few international investors?

Well, the consequences of misalignment can increase with the increased international involvement. As investors have clear policies and international standards are not necessarily in line with Danish culture and customs, there is not only a likelihood of increased misalignment, but it is also clear that misalignment will matter more to companies as it will be translated into negative votes at the AGM and these votes will have a higher impact on the total result.

Most boards of directors are probably still more focused on their major investors or their Danish investors to ensure support for the resolutions at the AGM, but they should be aware that there is a **growing interest from their international investors** on how the corporate governance of the company is handled. Occasionally, a resolution is rejected due to the votes from the international investors. This is still rare, but it happens, and



it has sometimes generated difficulties in the execution of the company's strategy. Currently most companies have taken the approach to engage only with the Proxy Advisors who are the advisors of the investors in relation to how the investors should vote on the individual AGM's. In fact, engaging only with proxy advisors and not directly with their investors is a practice that several Danish companies share with other Nordic companies. Instead, our research shows that only a limited portion of the investors rely 100% on their proxy advisor. Consequently, having meetings with the proxy advisors is not sufficient to mitigate the risk of rejection of resolutions or to understand the investors' views. The involvement from international institutional investors on Danish AGM's does not follow the growth in the international holding of the companies, but the international participation is still growing year by year.



Source: VP INVESTOR SERVICES, yearly AGM-analysis

On the other hand, investors' involvement with companies in other countries has already developed since implementation of the Stewardship Code in various jurisdictions. Initially the investors focused on exercising their vote at the AGM and some still maintain this as their main focus. The result of this could be seen as a bit too rigid, not leaving too much space for the viewpoint of the particular company, nor fitting well into the policies of a particular investor. More recently, the forefront of the investors welcome the company's viewpoint, especially when stated by the chairman of the board. The chairman of the board, often together with other members of the Board, has to be willing to engage with the corporate governance decision makers within the investors to present them with the company's 'Corporate Governance Story', to discuss and to adjust to suggestions from the investors. By that the company can develop a relationship with the long-term international investors. While this is common practice abroad, it is not yet too common in Denmark.

There has been some discussion in Denmark on whether the increase in foreign ownership should be welcomed as their way of doing active ownership can never be as involved with and tailored to the company as the active ownership of a Danish controlling owner, but as the listed company really cannot choose their owners, the only relevant consideration to make is to try to understand who the companies' owners are and understand the implications of that. Foreign ownership is an important asset for Danish listed companies. This is not only about mitigating risk, the listed company can benefit from engagement with International



institutional investors and by providing transparency on the corporate governance matters of the company develop a long lasting relationship with important owners.

What does the company need to do to engage with their international investors on corporate governance matters?

CORPORATE GOVERNANCE INTERACTION

- **Benchmark** the company corporate governance policies with those of peers, proxy advisors and investors to understand the strength and development areas of the corporate governance of the company.
- Plan an **engagement** with the top 10 – 15 international institutional investors, well in advance of the AGM season, to enhance awareness about the company, to promote its strengths, to discuss and to listen.
- **Analyse the investor base** to understand the decision-makers in the voting process and identify their general policies.
- Understand how the investor base will react to the specific resolutions of the next AGM by **analyzing the draft agenda** against the investor policies of the largest international investors.
- Contact the top 50 – 100 international investors to make sure they will attend by proxy and, if possible, **understand their voting intentions** well in advance of the AGM.
- **Monitor the votes** to avoid any lost transmission of votes through the custodial chain.

By this the company can **ensure high quorum and high support** on agenda resolutions, while mitigating risks of lost resolutions, but more importantly, develop a **good relationship** with ALL long-term investors.



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