

4th SWIPRA survey on the development of corporate governance in Switzerland

Governance of Swiss companies is increasingly shaped by international investors. And: Sustained criticism on pay for performance disclosure

Zurich, 31 October, 2016 – A majority of Swiss institutional investors sees little value in exercising voting rights at shareholder meetings and does not participate in engagements with issuers – the opposite is true for international institutional investors who increasingly influence the governance of Swiss companies. This is one of the headline findings of SWIPRA's Corporate Governance Survey 2016. The majority of investors further continues to perceive executive compensation as not reasonably aligned with achieved performance. This perception may be driven by insufficient disclosure: Less than one tenth of the investors are satisfied with the pay for performance disclosure. In addition, many institutional investors perceive the information on pay for performance in other countries as more substantial than in Switzerland, while a majority of Swiss issuers views Switzerland as a role model in this regard.

Corporate governance: Who sets the course?

About half of the participating *Swiss* asset managers (41.7%) and 75.8% of the participating pension funds do *not* engage directly with issuers. On the other hand, 100% of the participating *international* institutional asset managers seek a bilateral exchange with companies. The investors' size, measured by their assets under management, can only partially explain this remarkable difference. Alexander Wagner, Professor at the Swiss Finance Institute, University of Zurich, and Chairman of the SWIPRA Board of Trustees, comments: "Only those who speak up will have an actual influence. As a result of the international investors' greater involvement, their impact on the Swiss corporate governance landscape and on companies' annual general meeting outcomes continues to grow."

Additionally, in contrast to 72.2% of the international investors, only half of the Swiss asset managers and 22.6% of the pension funds exercise their voting rights primarily because they believe it generates value in a company. Barbara Heller, CEO of SWIPRA, comments: "The currently discussed proposal to extend the voting obligation to Swiss asset and fund managers appears problematic against this backdrop. There is a substantial risk that investors may just choose the most effortless way to assess agenda items of annual general meetings. The desirable objective assessment of long-term value creation and the companies' individual situations will not take place."

Misunderstood pay for performance

The majority of asset managers, investment funds and pension funds (53.6%), consider executive compensation and disclosed performance not reasonably aligned in Swiss listed companies.

One explanation is a potentially insufficient pay for performance disclosure (see Figure 1). Only 8.9% of the investors are clearly satisfied with the respective information provided by the issuers. At the same time, only 17.7% of the companies report having spent most time on pay for performance disclosure when preparing compensation-related information for their annual general meeting. However, especially the relation between performance-related compensation and actual performance needs to be evaluated and explained anew on an annual basis. This is aggravated by the observation that the vast majority of



market participants (67.3% of the investors and 74.7% of the companies) perceives variable compensation as increasingly complex.

An international comparison shows a remarkable discrepancy in the perception of disclosure quality: 66.7% of all investors able to compare disclosure across countries (and even 100% of the international asset managers) assess pay for performance information provided abroad as more substantial than in Switzerland. In contrast, 61.2% of the issuers able to compare consider compensation disclosure in Switzerland as the international benchmark.

According to investors, corporate social responsibility is a matter of the board of directors

Corporate social responsibility (CSR) plays an increasingly important role in all areas of corporate activity. Almost all survey participants agree that CSR issues should be managed at the highest levels of a company. An overwhelming majority of the investors (91.5%) deem the board of directors in charge of defining the strategic structure of CSR and addressing the related reputational risks, while only 55.6% of issuers share this view. An additional 35.8% of the issuers believe that this task should rather lie within the scope of the executive management, while only 3.4% of the investors share this opinion.

Shareholder rights

A thin majority of institutional investors (52.0%) views the level of protection for minority shareholders in Switzerland as too low. On the other hand, 83.8% of the companies perceive the respective protection as appropriate.

In the context of shareholder rights, SWIPRA raised the question whether equity instruments of companies not following the "one share one vote" principle should remain in benchmark indices. 64.0% of the asset managers believe that such instruments should not be represented in a benchmark index, especially if the freely tradable instruments account for less than 50% of the voting rights. The majority of issuers does not agree with such change of practice (51.3%).

To counteract the sometimes perceived short-term focus of investors, the introduction of a so-called 'loyalty dividend' was proposed within the scope of the current revision of the Swiss code of obligations. Such a dividend would allow issuers to increase payout to longer-term shareholders. This proposal is only supported by a minority of investors (21.8%) and companies (21.3%).

Barbara Heller, CEO of SWIPRA, comments the overall study results as follows: "We still observe significant differences in the perception between companies and investors with regards to important corporate governance issues and the respective disclosure. The continuous exchange and a high degree of communication between boards of directors and shareholders gain further importance. This is the only way by which companies will be able to prevent being assessed by too rigid evaluation standards."

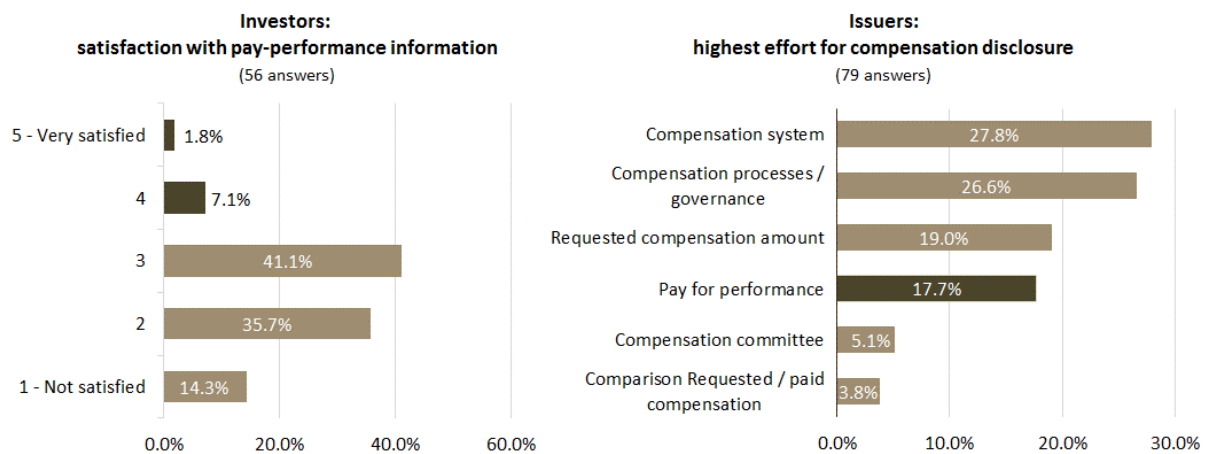


Figure 1: Satisfaction with the pay-performance information and disclosure effort

The survey

In addition to the results discussed herein, the survey provides new insights into important aspects of corporate governance, such as management compensation, board of director’s composition, exercising of voting rights and regulation. In collaboration with a team of researchers from the Department of Banking and Finance at the University of Zurich, all issuers of the Swiss Performance Index SPI® as well as national and international institutional investors were invited to participate in the fourth SWIPRA Survey on Corporate Governance in Switzerland. 172 institutions participated during the survey period in August/September 2016: 98 issuers listed on the Swiss Performance Index® and 74 institutional investors, of which about one third were non-Swiss, holding substantial equity investments in Swiss companies.

A summary of the study’s results can be downloaded using the following link: <http://swipra.ch/en/survey/>.

About SWIPRA

SWIPRA is an independent proxy advisor and corporate governance specialist. Based on the principles of value-based management and the objective of long-term shareholder value generation, SWIPRA provides governance analyses and voting recommendations regarding a variety of Swiss issuers listed on the SIX Swiss Exchange. www.swipra.ch

Contact

Barbara Heller, CEO
SWIPRA – Swiss Proxy Advisor
Raemistrasse 5, PO Box 519
CH-8024 Zürich
Switzerland
T: +41 44 515 89 68
E: barbara.heller@swipra.ch