



AGM-Season 2016

Main findings: Increasing shareholder participation, critical minority shareholders, slight decrease in executive compensation and higher shareholder payouts

Zurich, June 21, 2016 – AGMs in Switzerland saw a strong increase in the participation of minority shareholders in 2016. Shareholders currently show a high level of confidence in their companies, reflected by the generally high approval rates, particularly related to board elections. The increasing involvement of the overall more critical minority shareholders implies a continuously increasing reputational risk for issuers and higher expectations with regard to their disclosure. The value of transparent communication with shareholders continues to gain importance. This can be seen in the average executive committee compensation level, which, against the general public perception, saw a small decrease during the AGM season 2016. Shareholders further vote more critically with respect to non-binding votes on compensation reports than binding votes on compensation amounts.

Following the many regulatory changes and adaptations in the companies' articles, 2016 was an AGM season of consolidation. An analysis of the AGM outcomes of the 100 largest companies of the Swiss Performance Index (SPI®) to date, conducted by SWIPRA's cooperation partner, a team of researchers at the Department of Banking and Finance at the University of Zurich, provides an insight into interesting developments:

Key Findings

- Shareholder participation at AGMs increased in the past year, mainly as a result of a significantly higher minority shareholder involvement (shareholders who, individually, own less than 20% of the shares outstanding).
- Minority shareholders are considerably more critical in their voting than large shareholders
- In particular large institutional investors considerably limit the extent to which they adhere to the negative recommendations of some important proxy advisors with respect to fixed age and tenure limitations.
- The average compensation of executive committee members slightly decreased in comparison to the previous year. Through a more comprehensible disclosure, companies could qualify the common, arguably often incorrect public perception of generally increasing compensation levels.
- Shareholders clearly reflect the quality of a company's pay-for-performance in their voting behavior.
- The average payout to shareholders (including share buybacks) increased notably in the past financial year - despite the companies' low economic performance.
- Proxy Advisors continue to influence a voting block of up to 20% for specific agenda items.
- Voting recommendations, for example regarding compensation or elections of directors over the age of 70, differ notably between proxy advisors and are a sign for their deviating analysis framework.



Barbara Heller, CEO of SWIPRA, comments: “The generally high approval rates at AGMs are, perhaps against the general public perception, a sign of shareholders’ high confidence in their companies. Over the past years, we noticed an overall improvement of the disclosure quality and, even more important, of the dialogue regarding corporate governance between companies and their shareholders. Various important investors base their voting decisions rather on this dialogue and arguably less on rule-based governance frameworks. Sustaining this level of trust is important for companies and requires a continued improvement of the communication with their shareholders. An interaction that SWIPRA strongly encourages and supports.”

Shareholder participation – Minority shareholders speak up

After a substantial increase during the AGM season 2013, average shareholder participation has leveled and remains at around 70%. Taking a closer look reveals that this general observation neglects an important development as the average participation of minority shareholders increased by about 50% - from 40% in 2013 to 62% in the current AGM season. This shareholder group generally does not have the same close ties to management and board members as majority shareholders and, therefore, generally takes a more critical stance towards these governing bodies of the company. Issuers, therefore, face the challenge to provide the relevant information to this large group of generally heterogeneous investors in order to address their skepticism.

Trust the Board

Voting outcomes of the elections to the board of directors and to the compensation committee showed a clear and undisputed result with approval rates of 97-99% (median). Even the increasing number of generally critical minority shareholders did not impact this observation markedly. Some proxy advisors base their voting recommendations for board re-/elections on age and tenure limitations. While their dissenting recommendations for directors of an age between 65 and 70 reached up to almost 12%, shareholders only disapprove the board’s recommendations in 1.2% of all cases (all analyzed board elections were approved). Particularly large, mostly institutional shareholders tend to follow their own, individual opinion. They accept a selective deviation from standardized “best-practice” approaches in corporate governance, particularly regarding age or tenure limitations for directors. This view is in most cases in line with SWIPRA’s own philosophy and voting recommendations.

Compensation

The average compensation for members of the executive committee declined slightly in 2015, on average as well as at the best paying companies. The voting behavior of investors remained largely unchanged: The fraction of consultative votes against the compensation report (10.5% at the median) was again more than twice as high as the share of votes against the binding compensation amounts for the executive committee (3.5% at the median). Hence, investors rather seem to be more critical with respect to the compensation disclosure than to the actual remuneration levels or, alternatively, voice their concerns with regard to compensation issues generally in the non-binding vote on the compensation report. Other than for board elections, significant differences between companies with and without a controlling shareholder holding more than 20% of the votes can be observed. Companies without a controlling shareholder generally face a fraction of “AGAINST” votes three times larger than for controlled companies. A more meaningful and in particular comprehensible disclosure could arguably ameliorate the critical stance of minority shareholders towards the board and management. Generally, it can be observed that shareholders’ follow a quite rational voting behavior: Companies with a *negative* shareholder return (TSR) and increasing management



compensation faced a fraction of against votes of 4.6% on average while companies with a *positive* TSR and increasing management compensation only faced a fraction of “AGAINST” votes of 2.0%.

Payout (dividends, payouts from capital contribution reserves and share buybacks)

A noteworthy difference can also be found in the development of the payout levels between companies with and without controlling shareholders. Issuers with a large shareholder increased their dividend on average by 7%. This increase stands against an average negative development of the companies’ financial performance, measured, for example, by share price development or earnings per share. Companies without a controlling shareholder increased their payout on average by 20%. This remarkable increase stands against a minor improvement of the non-controlled companies’ average financial performance. The higher payout of these companies consisted predominantly of share buybacks; an indication that these companies tend to consider themselves as undervalued and are confident regarding their (re-)financing abilities. It is unclear, whether the current payout practices are sustainable and can be continued going forward. The disclosure of a meaningful and substantiated payout policy is oftentimes missing.

Detailed results and further information

Graphs and further information and analyses of the AGM season 2016 are collected in this [presentation](#). It discusses questions on voting behavior related to compensation amounts or related to the role of the independent proxy representative. The presentation further provides an overview and comparison of the different approaches employed by the largest proxy advisors in Switzerland and compares their influence on the voting outcome.

About SWIPRA

SWIPRA is an independent proxy advisor and corporate governance specialist. With the objective of long-term shareholder value generation, based on principles of value-based management and empirically relevant criteria, SWIPRA provides corporate governance research and analyses with the goal to offer objectively -based voting recommendations on select companies listed on the SIX Swiss Exchange. www.swipra.ch

SWIPRA develops individual proxy analyses and actively conducts engagements regarding the proposed agenda items with the companies’ supreme bodies: While SWIPRA initially took a more critical stance on many agenda items than its competitors, this dialogue eventually lead to actual AGAINST recommendations in 1/6 of the initially critical items. In this regard, SWIPRA is aware and accepts that many critically viewed issues may be resolved over time only.

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