

10 years SWIPRA Corporate Governance Survey: ESG has become the most important engagement topic, yet investors and companies are still divided on sustainability

Zurich, 29 November 2022 – In the 10th SWIPRA Corporate Governance Survey amongst institutional shareholders and companies, ESG is ranked as the top engagement topic for the first time. Concurrently, the survey also shows that both sides also point at each other when asked why progress towards global climate targets is moving to slowly: For 56% of companies, investors' short-term optimization of returns deters faster progress towards climate targets; 47% of investors, on the other hand, see the reason for this slow pace in the short-term oriented remuneration systems of companies. The remuneration issue, which was the focus of the SWIPRA survey series starting ten years ago, is now also assessed strongly from an ESG point of view. 74% of shareholders criticize that ESG incentives have too little weight in companies' remuneration systems. There is also a need for discussion towards the Annual General Meetings in 2024: On the one hand, there are different opinions on the required substance in the reporting for the say-on-sustainability, i.e., the vote on non-financial disclosures. On the other hand, many shareholders are still unaware that their rights will remain unchanged, regardless of whether the 2024 AGM will be held virtually or physically.

Engagements – Indispensable in the ESG discussion

- Environmental and social issues were the most important engagement topics for 49% of investors and 39% of companies towards the 2022 AGM, followed by remuneration issues; ESG (environmental, social and governance) therefore ranks as a top issue in engagements for the first time in this survey (see chart on the right)

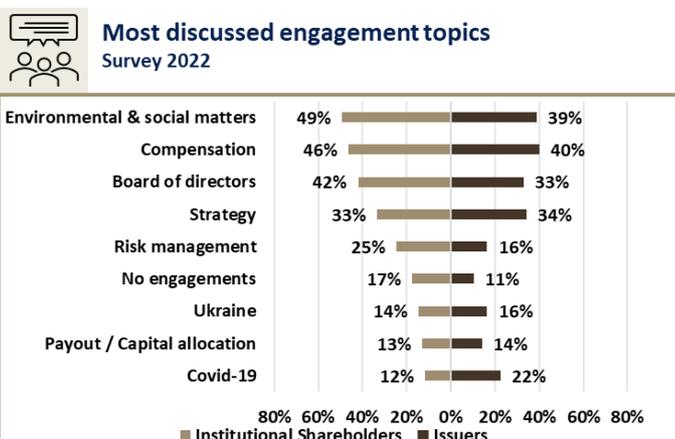
Upcoming events

Outlook AGM Season 2023
Webinar
January 2023

Swiss AGM Season 2023
Webinar
June 2023

- Engagements help investors to better understand which ESG factors are material for companies: in 2020, these factors remained largely unclear for 28% of the shareholders, in 2022 this fraction was reduced to 13%
- For 2023, biodiversity is expected to become a topic on the engagement agendas: 55% of shareholders indicated that it is (very) likely that they will raise this topic in their dialogues

Engagements are not only important to address company-specific topics regarding the board, compensation or sustainability, but also to generally improve mutual understanding, especially on sustainability goals. 83% of shareholders and 56% of companies believe that the economy is not moving fast enough towards global sustainability targets. In addition to a lack of global regulatory coordination (indicated by 61% of investors, 46% of companies), 47% of investors

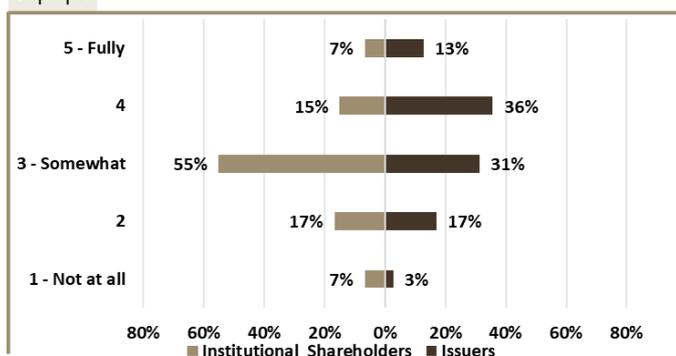




see the reason for this slow pace in the short-term remuneration systems of companies, while on the other hand, 57% of companies see the reason in the short-term return optimization of investors.

What is surprising, however, is that 54% of shareholders indicated that they are willing to forego higher returns in the short term if this is driven by sustainability investments. 66% of these shareholders make the level of acceptable return reduction dependent on transparency regarding ESG investments. And therein lies one of the problems: Only 22% of shareholders and 49% of companies are aware of the financial implications of the sustainability goals and pledges set by companies (see chart below). Improving this understanding should have a positive impact on the access to capital markets for ESG committed companies with respective capital needs. Currently, however, only 29% of companies see such an improved access due to their ESG efforts.

 **Understanding of financial impact of sustainability goals/pledges** Survey 2022



Board of Directors - ESG has arrived

- In 84% of the companies, the various topics of sustainability are regularly on the agenda of the board, with the majority of the discussions taking place in the full board (90%).
- For 76% of boards, ESG knowledge and experience are also a criterion when assessing new directors

- The main responsibility for the operational implementation of the ESG strategy lies with the CEO in 50% of companies, with the CFO in 21% and a further 17% appoint a Chief Sustainability Officer (CSO) for this

In the 2015 survey, investors described board elections as the most value-relevant AGM agenda items, in 2020 investors clearly indicated that they see the strategic responsibility for ESG topics with the overall board, and in 2022 we see that the topic of ESG has definitely arrived and is actively promoted in the boardroom. 58% of companies already see their ESG ambitions as fully anchored in the corporate culture. It is now crucial to address the sometimes diverging requirements of the most important stakeholder groups of a company regarding strategic ESG considerations in a balanced way. Non-financial reporting ("NFR") plays an important role in this regard. In terms of form, 53% of the companies and 41% of the investors expressed a preference to integrate the NFR as a separate chapter, analogous to the remuneration report, in the annual report. Only one-fifth of the survey participants would prefer this information to be fully integrated into the existing report or as a completely separate stand-alone report.

Non-financial reporting – expectations for 2024

- 53% of investors perceive the non-financial reporting (NFR) of small and medium-sized companies as not or not very meaningful, but mostly comparable to European peers (73%).
- Concerning the CO₂ disclosure, the company's own emissions and energy consumption ("Scope 1&2") are key, 87% of companies report and have great confidence (81%) in this data. For CO₂ emissions along the supply chain ("Scope 3"), both the proportion of companies that publish this information (69%) and the trust in this data (39%) remains lower.



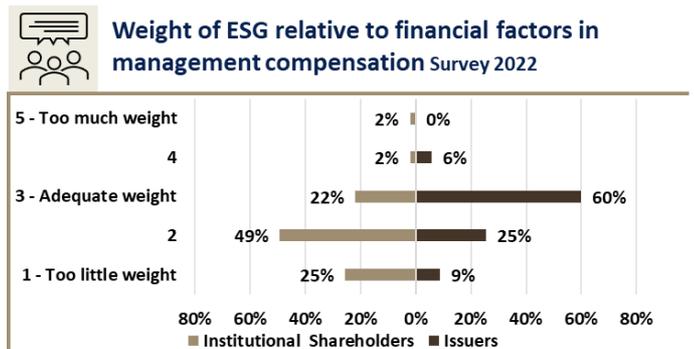
- 59% of investors have no preference for a specific reporting standard in the area of sustainability. Only 18% shareholders consider the GRI reporting standard, the most widely used in Switzerland, to be insufficient for the vote on the NFR.

With respect to these NFR-votes taking place from the 2024 AGMs onwards, small and medium-sized companies in particular are confronted with considerable expectations for improvement. It is not primarily about fulfilling a specific reporting standard, but more about a substantial increase in the transparency and informativeness of the current reporting. 51% of companies plan to improve transparency on progress made in the area of ESG in future NFRs and 40% indicated that they will improve their disclosure on short-, medium- and long-term ESG goals. There is also a need for discussion of "Scope 3" CO₂ reporting. Disclosure is required by many stakeholders and ESG reporting standards, but trust in this number is still relatively low, begging the question to what extent these figures should be used to inform important decisions. An external audit of the NFR should be carried out by the existing auditor, according to 66% of companies and 44% of shareholders. 34% of shareholders, especially asset managers, would prefer to see the NFR audit with another external auditor.

Remuneration – The substance is still missing

- For 2021, 47% of the largest 100 SPI® companies stated in their compensation report that they reflect ESG targets in their variable compensation
- 74% of shareholders believe that ESG objectives have too little weight in the remuneration structure, 60% of companies feel that the weighting is appropriate
- Institutional shareholders consider performance and remuneration disclosures in Switzerland to be comparable to EU companies, with SMI® companies tending to be above and small and medium-sized companies to be below their EU peers

The number of companies with remuneration-related ESG criteria has risen sharply in recent years, but shareholders often struggle to understand these incentives. In addition to the weighting of these ESG criteria, which the majority of shareholders consider as too low (see figure below), the materiality of these incentives for value generation in the company was also viewed critically. Only 17% of shareholders could really assess the strategic relevance of ESG incentives. The focus on management compensation relative to average employee compensation during the pandemic has largely disappeared. Only 22% of companies regularly take this criterion into account and only 26% of shareholders consider it in the remuneration analysis. However, this could change quickly in 2023 in view of the sharply rising cost of living, especially in the analysis of non-Swiss shareholders, also with consequences to the analysis of Swiss companies.



The future of the AGM - Format & regulation

- The majority of companies will propose adjustments to their Articles of Association (AoA) in 2023 to have the possibility to hold virtual AGMs ("virtual meetings", i.e. AGMs without a physical meeting venue, but with electronic live voting and live questions) from 2024 on
- The majority of Swiss shareholders welcome that AGM formats become more flexible, but foreign shareholders are still have some reservations with the virtual format



- Companies do not yet have a general preference for the AGM format of the future, the fraction of "must have" replies have been spread almost evenly across the virtual and the physical format.

In 2023, AGMs are expected to be held completely in an in-person, physical format again, before the virtual format will be possible from 2024 on, subject to changes in the Articles of Association. For these amendments to the Articles of Association, it is important for companies to prepare their non-Swiss shareholders for the content of this vote. The inconsistency in this shareholder group, a preference for virtual AGMs and at the same time critical of the necessary amendment to the Articles of Association is likely driven by the fact that there remains uncertainty regarding shareholder rights in the virtual format. This ambiguity must be addressed in advance of the 2023 AGM.

About the study

In cooperation with a team of researchers from the Institute of Banking and Finance at the University of Zurich, all companies in the Swiss Performance Index SPI® as well as institutional investors from Switzerland and abroad were invited to participate in the tenth SWIPRA survey on corporate governance in Switzerland. In the survey period (August to October 2022), 83 Swiss companies listed on the SIX Swiss Exchange, representing around 80.9% of the market capitalisation of the Swiss Performance Index, and 75 institutional asset managers and asset owners from Switzerland and abroad took part. The participating investors, around a third of them domiciled abroad, represent at least 28.4% of the equity investments managed worldwide (Source: IPE) and hold a majority of substantial stakes in Swiss companies.

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SWIPRA Services is working with a high-profile think tank to further develop corporate governance and CSR in Switzerland.

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