



Newsletter

Swiss AGM Season 2018

7 / 2018

SWISS ANNUAL GENERAL MEETINGS 2017 / 2018: LESS CONTROVERSIAL?

Zurich, July 3, 2018 - In this proxy season, fewer annual general meetings (AGM) were subject to a controversial public debate than in the past years. Yet, the SWIPRA AGM Analysis shows that voting results overall had the same level of dissent as the previous year. In addition, a number of new developments could be observed: for the first time since the introduction of the Ordinance against Excessive Compensation, the influence of proxy advisor recommendations on AGM results has decreased. Institutional shareholders no longer follow proxy advisors' voting recommendations uncritically and increasingly base their voting decisions also on their own governance and voting policies, making their voting behavior less predictable for companies. Influential institutional investors increasingly use a multiyear view when taking their voting decisions. They make careful use of advisory and binding votes to proactively guide the development of companies' governance framework or to respond retrospectively to deficits therein. In this AGM season, shareholder dissent with compensation-related agenda items increased again for the most controversial companies. In an international perspective, compensation reports of Swiss issuers continue to receive significantly more AGAINST votes than their peers in the UK or the US. Another interesting observation concerns minority shareholders of companies with an anchor shareholder. They are significantly more critical in their voting than shareholders of widely-held companies. Shareholders' voting behavior as well as proxy advisor recommendations continue to show a clear preference for female board members and issuers keep increasing the fraction of women on their boards of directors. Shareholder interest in AGM participation remains high: in this AGM season, the average AGM participation rate in half of the SPI100 companies reached 70% in the SPI100 companies.

Upcoming Events

November 7, 2018

Publication of results

6. SWIPRA Corporate Governance Survey

December 12, 2018

Event (by invitation)

2. Swiss Corporate Governance Dialog

Fall / Winter 2018

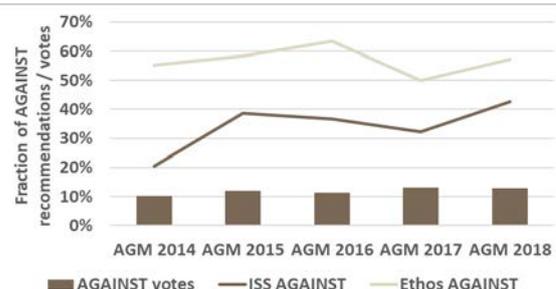
Event for board members (by invitation)

Board Talk

Declining influence of proxy advisor recommendations

SWIPRA analyzed the results of the AGMs of the 100 largest listed Swiss companies (SPI100) in the period from 1 July 2017 to 30 June 2018. During this proxy season, the influence of individual proxy advisors' AGAINST recommendations on AGM outcomes declined. Especially large institutional shareholders increasingly also rely on their own governance policies and proxy voting guidelines. This generally leads to substantial differences between AGM outcomes and proxy advisors' voting recommendations. While ISS and Ethos recommended to vote against compensation reports in 42% (ISS) and 58% (Ethos) of all SPI100 companies (up from 32% and 50% in the previous year), shareholders' AGAINST votes remained unchanged at a median level of 13%.

Figure 1: Proxy advisor voting recommendations and AGM voting outcomes on compensation report agenda items over time. ISS recommendations are not publicly available and approximated by market observations.





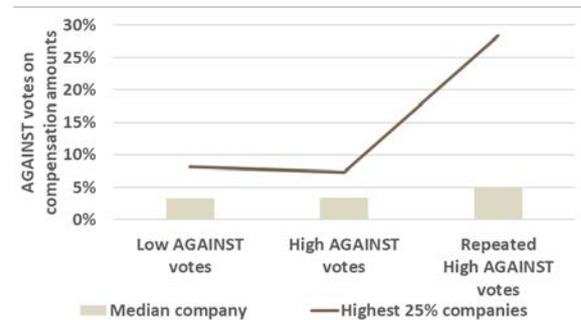
The SWIPRA AGM analysis shows that proxy advisors' AGAINST recommendations are highly persistent. Almost 80% of the issuers with an AGAINST recommendation on their compensation report at the AGM 2017 received another AGAINST recommendation in 2018. Companies often amend their governance structures and the associated disclosure over time, which can, however, only be captured partially by the sometimes rigid guidelines of proxy advisors. Timing therefore also plays an important role in these analyses: in view of the next AGM, proxy advisors generally develop their voting recommendations on the basis of a snapshot of the companies' current governance settings. They are hardly able to reflect ongoing adjustment processes of companies' governance frameworks over time. This contrasts with investors, who increasingly engage with issuers, allowing them to take a multiyear dynamic view when analyzing a company's governance framework. If investors agree with the direction taken by the issuer, they will generally support the board's proposals.

Advisory and binding compensation votes: a working toolkit for investors

Since the Ordinance against Excessive Compensation (OaEC), issued in 2014, shareholders of Swiss-listed companies have the unique instrument of an annual binding vote on executive and board compensation amounts and also individually elect the members of the board, the chairman and in particular the members of the compensation committee on a yearly basis. Most companies voluntarily also offer, in line with international practice, an advisory vote on the compensation report. The SWIPRA AGM analysis shows that investors use the tools of binding and non-binding votes selectively in a multiyear approach: issues with compensation-related items are voiced first in (non-binding) AGAINST votes on the compensation report. Absent a satisfactory reaction by the company, these shareholders reject not only the advisory vote on the compensation report in the following year, but also the binding votes on compensation amounts and the elections to the compensation committee:

for the 25% of companies with the highest fraction of AGAINST votes ("most critical quartile"), shareholder opposition increased significantly from 7% to 28% (executive compensation amounts) and from 7% to 16% (elections to the compensation committee) if a meaningful reaction to last year's high level of AGAINST votes on the compensation report was missing.

Figure 2: Shareholder voting dynamics – Impact of a repeated high fraction of AGAINST votes on the compensation report on the outcome of the binding AGM item on executive compensation amounts



This provides incentives for issuers to react. 43% of companies with more than 20% AGAINST votes on the compensation report at the AGM 2017 were able to significantly reduce the fraction of dissenting shareholder votes at the AGM 2018. In the preceding AGM season, only 31% of companies achieved such an improvement. The dynamic use of advisory and binding compensation votes proves to be an important instrument for investors and illustrates the role of the advisory vote as a device for collecting criticism on the compensation system and the quality of disclosure for issuers, an approach SWIPRA has been promoting since the introduction of the OaEC. These findings clearly contrast with the widespread public view that the regulatory changes of 2014 did not impact or help improving compensation-related issues in Swiss companies.

Compensation reports: international comparison

Compensation-related agenda items were again the most critically viewed AGM ballots. Advisory votes on compensation reports received a median level of 13% AGAINST votes, which remains high compared to international standards as UK and US

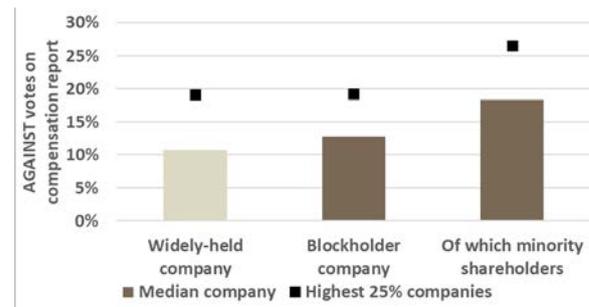


companies received AGAINST votes of 6% and 9%. For the most critical quarter of issuers in each country, this is even more accentuated with 19% AGAINST votes for Swiss, 11% for UK and 8% for US companies. A similar and even more emphasized voting pattern across countries can be observed at some of the world's largest institutional investors' voting behavior. For example, almost half of the compensation reports in Switzerland and only 8% and 4% in the UK and the USA have been rejected by certain investors (latest available figures, AGM Season 2016/17). The gap between investors' expectations and issuers' decisions on compensation matters as well as related disclosure remains significant in certain cases and varies considerably between countries.

Companies with anchor shareholders: critical minority shareholders

Seven out of ten SPI100 issuers have a shareholder or shareholder group controlling 10% or more of the voting rights ("blockholder companies"). Accordingly, with AGM participation rates of 70%, these anchor shareholders represent at least 15% of the AGM votes and may, together with one or two other large shareholders, easily reach a blocking minority. This year's AGM results show that issuers rely heavily on their anchor shareholders. Interestingly, minority shareholders in these companies are less supportive at AGMs than their peers in non-blockholder firms: in the most critical 25% of companies, 19.1% of the shareholders in non-blockholder companies voted against the compensation report, compared with 26.6% of minority shareholders in blockholder companies. In the most critical quartile of non-blockholder companies, 6.6% of the shareholders rejected the election of the chairmen, while 12.3% of minority shareholders did so.

Figure 3: Shareholder votes in blockholder companies – AGAINST votes on compensation report in companies without an anchor shareholder ("widely held"), in companies with a blockholder controlling at least 10% of the voting rights, and of the minority shareholders in companies with a blockholder. Voting outcomes for minority shareholders are calculated under the assumption that the blockholder always votes with the board of directors.



As various examples in recent years have shown, a company's shareholder structure may change swiftly. Accordingly, these findings show the importance of taking into account the interests and claims of all shareholders, including in particular those of minority shareholders in blockholder companies.

Board of directors: reacting to shareholder concerns

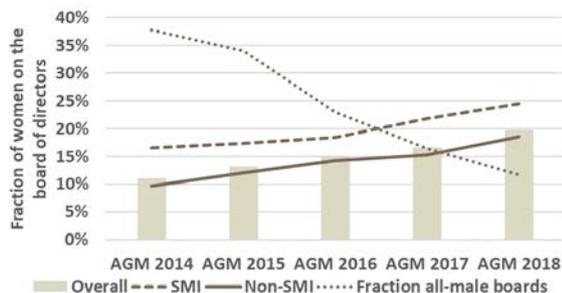
In 2017, the median chairman compensation increased by 4.1% to CHF 1.4m for SMI and, on a substantially lower level, by 8.4% to CHF 0.4m for non-SMI companies. This brings total pay of SMI chairmen to about 70% and non-SMI chairmen to about 42% of the base salary of their CEOs (i.e., compensation without performance-related short- and long-term elements). The smaller gap in SMI companies can be explained with the higher number of chairmen mandates that are considered full time. Importantly, the fraction of share-based compensation (often a fixed amount in shares with a multi-year vesting period) for boards of directors continued to increase, for chairmen from 25.6% to 28.0% and for other board members from 27.7% to 29.9% of their total compensation.

In the AGM season 2017/2018, the diversity on the board of directors, in particular with respect to gender, was once again in the focus of shareholder



ers and the public. Investors' preferences were reflected in almost 50% fewer AGAINST votes for female board candidates. Interestingly, a significant repercussion against board of directors consisting of male directors only could be observed -- currently 11 companies within the SPI100 (down from 41 in 2013). AGAINST votes in chairmen elections of these companies increased from 1.3% in 2017 to 7.4% in the current year, while chairmen of mixed-candidate boards received AGAINST votes of only 1.6%. While still at low levels, the significant increase of AGAINST votes for male-only boards shows the dedication of shareholders to add women to the boards of directors of their companies.

Figure 4: Composition of the board of directors – Fraction of female board members in all companies of the SPI100, the SMI and companies of the SPI100 that are not included in the SMI (non-SMI). All-male boards indicate the number of boards that only have male directors.



Issuers are continuing their efforts to increase the number of female board members. After the AGM 2018, one in four board members (24.5%) in SMI companies is female (up from 22% a year ago), while in non-SMI companies, this fraction stands at 18.5% (up from 16.5%). The development of gender representation on boards of directors indicates alignment between shareholder and issuer interests (as also shown by the results of the SWIPRA Corporate Governance Surveys 2016 and 2017). It critically questions the need for a politically motivated regulation of minimum gender representation on boards, especially as a voluntary increase in diversity in general enables companies to add the right competencies at the right time to their boards.

About the SWIPRA AGM analysis 2017/2018

SWIPRA analyzed the results of AGM's held by the 100 largest Swiss listed companies (SPI100) during the period between July 1, 2017 and June 30, 2018. The overall analysis contains more data than described in here. For further information please contact SWIPRA.

About SWIPRA Services AG

SWIPRA Services provides corporate governance services for listed companies and their boards of directors as well as for institutional investors. We work with our clients with the aim of increasing the value of the company in the long term, based on principles of value-based management and empirically relevant criteria. www.swipra.ch

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