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AGM Season 2016

Analysis Outline

June 2016



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The analyses with respect to proxy advisor recommendations cover the companies of the SMI Expanded® (50 largest equities of the SIX Swiss Exchange), while the analyses with respect to shareholder votes cast cover the 100 largest companies of the SPI® that held their AGM between June 30, 2015 and May 31, 2016. Sample size may vary due to data availability.

The quantitative findings in this presentation draw on an analysis conducted by researchers at SWIPRA's cooperation partner, the Department of Banking and Finance of the University of Zurich.



I. Key Findings AGM Season 2016 (I)

SWIPRA Observations based on Comprehensive Analysis

1. Shareholder Participation

- The increase in overall shareholder participation at annual general meetings compared to the previous year is mainly driven by an increased voting participation of minority shareholders.
- These shareholders generally have less direct access to companies prior to the annual general meeting and are, therefore, more reliant on the companies' published information.

2. Board of Directors

- Shareholders are generally more critical in re-elections than in new elections.
- Despite the caps on tenure and age advocated by many proxy advisors and some investors (notwithstanding lacking empirical evidence), investors and particularly larger shareholders, do not appear to vote according to these caps.



I. Key Findings AGM Season 2016 (II)

SWIPRA Observations based on Comprehensive Analysis

3. Compensation

- Shareholders remain much more critical on compensation reports (non-binding votes) than on amounts (binding votes).
- The increase in critical votes on executive compensation amounts is largely driven by minority shareholders.
- A shareholder reaction to failing pay-for-performance can be seen in higher shareholder dissent for proposed compensation amounts.

4. Payout to Shareholders

- Total shareholder payout increased for the past year, mainly driven by share-buybacks for widely-held and dividend increases for controlled companies.
- The significant increase in payout for widely-held companies stands against a *modest increase* in performance while for controlled companies, the increase stands against an *average decline* in performance.



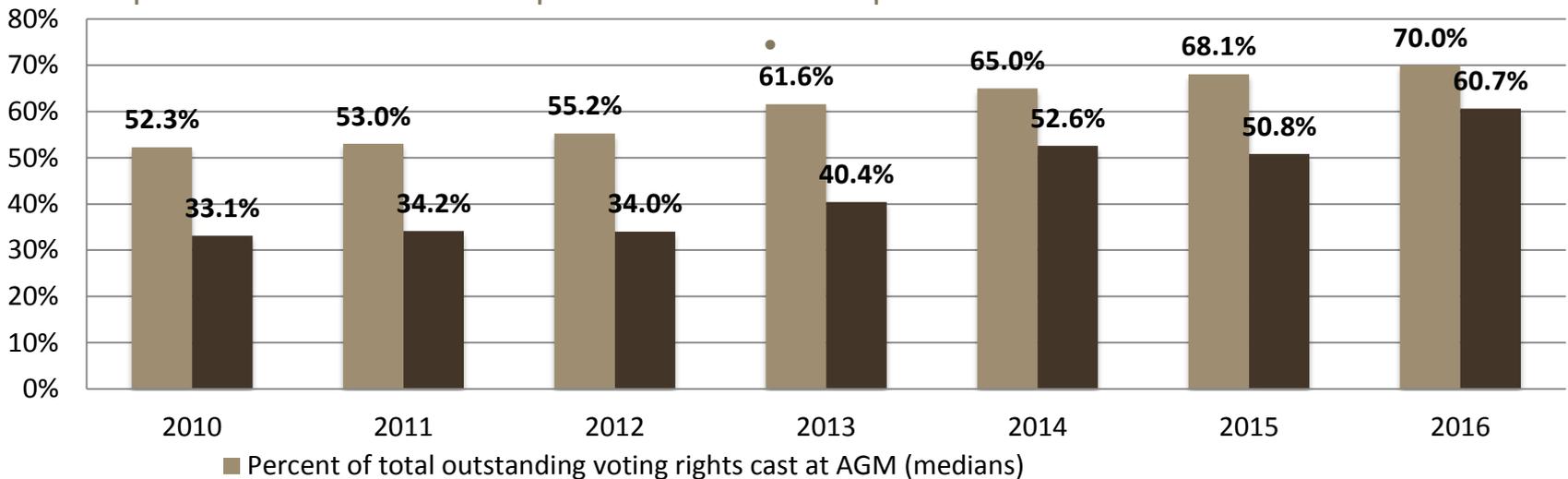
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II. AGM Participation



II. AGM Participation (I) Shareholder Voting

- Overall, shareholder participation has increased slightly over the past years.
- In companies dominated by a large shareholder, owning more than 20% of the shares outstanding, participation of minority shareholders increased markedly over the past years.
- The increase in minority shareholder participation raises the importance for issuers to engage and provide them with a comprehensive and transparent disclosure.



■ Percent of votes cast by minority shareholders in controlled companies at AGM* (medians)

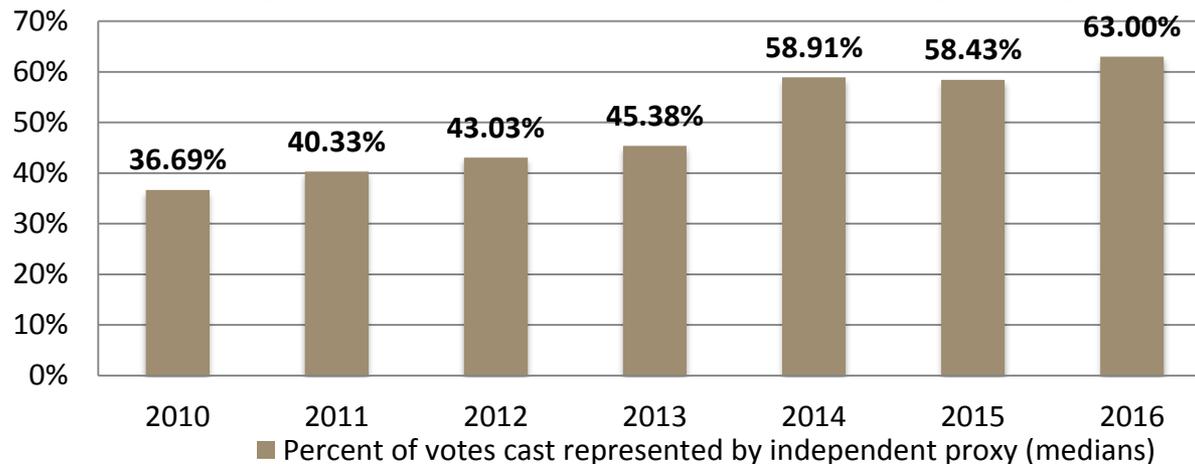
The analyzed sample contains observations for the 100 largest SPI® companies that held their AGM between July 2015 and May 2016 and for which data is available over the entire period from AGM 2010 to AGM 2016. Ownership data is as of December 2014.

* Blockholders are defined as investors holding >20% of a company's voting rights; a company with a blockholder is considered a "controlled company". Participation of non-blockholders is calculated as (#votes cast - #blockholder votes)/(#votes outstanding - #blockholder holdings).



II. AGM Participation (II) Independent Proxy

- The share of votes represented by the independent proxy has again increased significantly in the past year.
 - Shareholders should be aware that this may be critical with regards to general instructions for ad-hoc agenda items.
 - Shareholders casting their votes with the independent proxy will generally have to take their voting decisions considerably ahead of the AGM.
- A company's early and transparent communication and explanation of its agenda items is important to inform the significant fraction of shareholders voting through the independent proxy.



The analyzed sample contains observations for the 100 largest SPI® companies that held their AGM between July 2015 and May 2016 and for which data is available over the entire period from AGM 2010 to AGM 2016.



II. AGM Participation (III) Further Observations

- Although it is difficult to exactly determine the shareholdings by foreign investors for companies, it appears that the fraction of shares of Swiss-listed companies held by foreign investors is increasing.
- Large foreign, mainly institutional investors increasingly make use of their AGM voting rights.
- As a result of the growing share of foreign investors and the tendency of this shareholder group to actively use their voting rights, Swiss companies are increasingly dominated by foreign shareholders.
- The independent proxy continues to be a crucial person at AGMs and investors have to be aware of how ad-hoc agenda items may be treated based on their instructions given.



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III. Board of Directors



III. Board of Directors (I) General Election Results

- Overall, approval rates remain very high for all elections related to the board of directors.
 - There is hardly any difference between minority shareholders' and blockholders' voting behavior.
 - Interestingly, re-elections are more disputed than elections for regular board members (but dissent is still at a very low level).
- Unclear whether boards will be able to uphold the current, heavily trust-based voting behavior of their investors.

		FY 2012	FY 2013	FY 2014	FY 2015
AGAINST Votes Re-Elections (medians)	Regular	1.17%	0.88%	0.81%	0.80%
	Chairman	2.12%	2.09%	1.03%	1.36%
	Comp Committee		1.68%	1.30%	1.23%
AGAINST Votes New Elections (medians)	Regular	0.82%	0.80%	0.45%	0.56%
	Chairman	0.20%	1.21%	1.99%	4.53%
	Comp Committee		1.26%	1.08%	0.93%

The analyzed sample contains observations for the 100 largest SPI® companies that held their AGM between July 2015 and May 2016 and for which data is available over the entire period from AGM 2012 to AGM 2016.



III. Board of Directors (II)

Age Limitation

- More than half of the companies have an age-based election restriction.
 - Board members turning 70 years old receive significantly more AGAINST recommendations by most proxy advisors (see slide 30 for more details).
 - The low level of dissent suggests that it is mainly small minority shareholders that follow the recommendations of these proxy advisors, while larger investors seem to rely more on their own analysis.
- Larger investors do not seem to blindly follow the advice of certain proxy advisors when electing board members.

		AGAINST Voting Recommendations (%)		
	Age	< 65y	65-70y	70y+
Company Limitation*	55.26%			
AGAINST Votes		0.85%	1.18%	2.43%
SWIPRA		1.98%	0.00%	3.45%
Ethos		5.94%	8.33%	20.69%
Inrate		5.28%	4.17%	13.79%
ISS**		13.86%	11.46%	31.03%
Observations		303	96	29

The analyzed sample contains observations for the 100 largest SPI® companies that held their AGM between July 2015 and May 2016 and for which data is available.

* Company-defined age caps generally are non-binding and allow for exceptions.

** ISS recommendations are not publicly available. In what follows, the analysis approximates ISS recommendations by considering publicly available voting reports of market participants that relate their voting policy to the ISS proxy voting guidelines.



III. Board of Directors (III)

Tenure Limitation

- One in six issuers has a publicly disclosed tenure limit.
- Similar to age, longer tenure, in particular a tenure of more than 10 years, is associated with an increase in AGAINST voting recommendations by many proxy advisors.
- The low level of dissent again suggests that it is mainly the small minority shareholders that follow the AGAINST recommendations by some proxy advisors.
- Larger shareholders seem to challenge certain proxy advisors' view that long tenure is a reason to contest a board member's (re-)election.

	Tenure	AGAINST Voting Recommendations (%)		
		< 5y	5 – 10y	10y+
Company Limitation*	17.39%			
AGAINST Votes		0.74%	0.93%	3.01%
SWIPRA		2.01%	0.00%	1.10%
ETHOS		8.04%	6.15%	8.79%
INRATE		5.03%	4.62%	8.79%
ISS**		11.56%	10.00%	26.37%
Observations		199	130	91

The analyzed sample contains observations for the 100 largest SPI® companies that held their AGM between July 2015 and May 2016 and for which data is available.

* Company-defined tenure caps generally are non-binding and allow for exceptions.

** Please refer to footnote ** on slide 11.



III. Board of Directors (IV) Further Observations

➤ Board rotation

- Many companies have age and tenure limits in place. Perceived high importance contrasts with empirical findings related to the creation of shareholder value.
- In general, companies provide only limited information on actual board rotation determinants and processes.

➤ Board independence

- Companies provide information on their requirements with regards to independence of individual board candidates, often based on the Swiss Code of Best Practice, but only little information on how independence of the board as a whole is assessed and assured.

➤ Board responsibilities

- CSR is seen as a topic with increased interest from shareholders. Improving disclosure on how CSR is strategically anchored within the board processes would help investors to better assess CSR risks, instead of merely applying ESG Ratings.



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IV. Compensation



IV. Compensation (I) Compensation Levels

- Compensation levels for an average executive committee member (including the CEO) has declined slightly compared to last year, for the median as well as for the highest paying companies.
- High compensation levels are largely driven by high performance-based compensation and not by increases in fixed salaries.
- For companies, primarily for those with a heavily performance-linked compensation system, it is particularly important to transparently explain the pay-for-performance link.

		FY 2012	FY 2013	FY 2014	FY 2015
Average Compensation *	Top 25%	2'221'486	2'414'745	2'597'928	2'637'088
	Median	1'359'819	1'730'590	1'654'519	1'631'093
Performance-based Compensation Share**	Top 25%	61.17%	60.98%	63.44%	60.53%
	Median	44.11%	48.80%	45.53%	49.26%

The analyzed sample contains observations for the 100 largest SPI® companies.

* Average compensation of executive committee members is defined as total executive committee compensation (incl. pension and social security contributions) divided by the number of executives.

** Variable compensation share is defined as performance-based compensation elements divided by total compensation.



IV. Compensation (II)

Approval Rates by Shareholder Base

- Widely-held companies generally receive more AGAINST votes on compensation-related agenda items than controlled companies.*
- Foreign blockholder companies tend to receive more AGAINST votes than Swiss blockholder companies for the compensation report, but not for compensation amounts.
- The growing voting participation of minority shareholders and foreign investors increasingly challenge issuers' compensation-related decisions and disclosure.

	AGAINST votes (%)					
	Executive Compensation**			Compensation Report		
	Widely-held company	Any Controlling Shareholder***	Foreign Controlling Shareholder***	Widely-held company	Any Controlling Shareholder***	Foreign Controlling Shareholder***
25%	1.70%	0.61%	0.57%	5.94%	1.67%	1.06%
Median	4.95%	1.49%	1.48%	10.41%	6.99%	8.49%
75%	9.36%	5.18%	10.56%	17.15%	11.55%	11.00%
n	166	102	28	113	53	15

The analyzed sample contains observations for the 100 largest SPI® companies that held their AGM between July 2014 and May 2016 and for which data is available.

* Controlled companies are defined as companies with a single shareholder controlling more than 20% of the voting rights.

** Covers all agenda items related to executive compensation and may contain more than one observation per company if votes on compensation counts are split for different compensation elements.

*** "Any"/"Foreign" shareholder is defined as shareholder registered in any country/in a country other than Switzerland.



IV. Compensation (III)

Approval Rates by Compensation Amounts

- Minority shareholders were significantly more critical when voting on compensation amounts.
- Pooling all compensation elements in one amount is greeted significantly more critical by shareholders than splitting amounts into single elements.
- Shareholders, in particular minority shareholders, require a more detailed disclosure when voting on total compensation amounts.

	Median AGAINST votes (%)		
	Executive Compensation*		
	All	Widely-held Company	Controlled Company
Total Compensation	6.01%	7.48%	2.61%
Base Compensation	1.46%	1.90%	1.06%
Variable Compensation	3.14%	4.60%	1.49%

The analyzed sample contains observations for the 100 largest SPI® companies that held their AGM between July 2015 and May 2016 and for which data is available.

* Covers all agenda items related to executive compensation and may contain more than one observation per company if votes on compensation amounts are split for different compensation elements.



IV. Compensation (IV)

Votes on Compensation – Shareholder Reaction

- Shareholders are generally favorable towards compensation systems that reward high performance with high compensation.
- Raising compensation against falling performance is, however, greeted critically.
- The extent of how a compensation system’s pay-for-performance is calibrated impacts shareholders voting decision on compensation amounts.

	Median AGAINST votes (%) (Observations)	
	Executive Compensation*	
	Negative TSR**	Positive TSR
Falling Average Executive Committee Compensation	6.78%	3.95%
	15	29
Increasing Average Executive Committee Compensation	4.62%	2.04%
	13	43

The analyzed sample contains observations for the 100 largest SPI® companies that held their AGM between July 2015 and May 2016 and for which data is available.

* Covers all agenda items related to executive compensation and may contain more than one observation per company if votes on compensation amounts are split for different compensation elements.

** Total shareholder return (TSR) is measured as share price development plus payout to shareholders relative to the beginning-of-year share price.



IV. Compensation (v) Further Observations

- A direct comparison of approved and disbursed compensation is not always provided.
- Inclusion of (different types of) social security contributions in proposed maximum amounts varies across companies, hindering direct comparisons of compensation amounts between issuers.
- A large number of companies does not disclose in detail how proposed maximum amounts are derived and how they relate to previous years' approved and disbursed amounts.



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V. Payout to Shareholders



V. Payout to Shareholders

Development and Structure by Shareholder Base

- For widely-held companies, the significant payout increase is mainly driven by share buybacks and stands against a modest increase in economic performance.
- For controlled companies, the payout increase is driven by an increase in dividends and stands against a generally negative development in economic performance.
- Unclear whether the current payout policies are sustainable over the medium term, since many companies do not disclose a comprehensive and well-defined payout policy.

	Widely-held Companies (medians)			Controlled Companies (medians)		
	2013	2014	2015	2013	2014	2015
Dividend per share	2.85	3.25	3.30	7.38	7.00	7.50
Buyback per share*	0.00	0.00	0.00	0.00	0.00	0.00
Total Payout**	3.68	3.70	4.44	7.38	7.00	7.50
EPS	3.41	5.21	5.40	7.01	8.03	5.62
Share Price YoY***	25.36%	11.71%	6.29%	25.43%	6.89%	-2.55%

The analyzed sample contains 45 observations for companies of the SMI Expanded® Index that held their AGM from July 2015 to May 2016 and for which data is available.

* Buyback per share is the amount of shares bought back for reasons of cancellation, divided by the number of shares outstanding at the beginning of the year. A “0” implies that less than 50% of the companies have conducted a buyback. Average buyback per share was CHF 0.68 (2013), CHF 0.35 (2014), CHF 1.57 (2015) for widely-held companies and CHF 17.99 (2013), CHF 0.60 (2014) and CHF 0.18 (2015) for controlled companies.

** Total payout is the sum of dividend per share and buyback per share.

*** Share Price Development is measured as price index development over the past calendar year.



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VI. Proxy Advisor Influence and Philosophy



VI. Proxy Advisors (I)

Overall Voting Recommendations

- Overall, SWIPRA was discussing one in four items with the issuers (up from 17.2% a year ago) and provided against recommendations for 3.6% of all agenda items (unchanged).
- SWIPRA’s initial analysis was more critical than recommendations from its peers. An interaction with issuers helped to clarify many of the critical items or to accept the current situation for future follow up and adoptions by the companies.
- The SWIPRA process continues to perform as intended and provides a high level of transparency vis-a-vis the shareholder.

	Rejected by Shareholders	SWIPRA INITIAL*	SWIPRA FINAL	ETHOS	INRATE	ISS**	Items (n)
AGAINST Recommendations (#)	12	239	36	123	85	105	946
AGAINST Recommendations (%)	1.27%	25.26%	3.81%	13.00%	8.99%	11.10%	

The analyzed sample contains 45 observations for companies of the SMI Expanded® Index that held their AGM between July 2015 and May 2016 .

* As part of the SWIPRA process, items initially classified as critical (“SWIPRA INITIAL” in the above table and in what follows) can potentially be resolved through a discussion with the company. Based on the information obtained in this discussion, SWIPRA will publish a final FOR or AGAINST recommendation on each item (“SWIPRA FINAL” in the above table and in what follows). In each case, the communication with the company is disclosed in the SWIPRA voting recommendation.

** Please refer to footnote ** on slide 11.



VI. Proxy Advisors (II)

Influence in widely-held companies

- The percentage of shareholders' AGAINST votes is strongly associated with proxy advisors' recommendations.
- Proxy advisor recommendations may influence up to almost 30% of the votes for certain agenda items.
- These data suggest an important influence of proxy advisors (though the association is not necessarily causal).

	ALL FOR	ONLY SWIPRA AGAINST	ONLY ETHOS AGAINST	ONLY INRATE AGAINST	ONLY ISS* AGAINST	ALL AGAINST
AGAINST votes (median %)	0.70%	0.00%	6.67%	5.22%	21.20%	28.95%
Recommendations (n)	456	0	41	12	9	1

The analyzed sample contains 45 observations for companies of the SMI Expanded® Index that held their AGM between July 2015 and May 2016 and for which data is available.

* Please refer to footnote ** on slide 11.



VI. Proxy Advisors (III)

Influence in controlled companies

- The presence of a large shareholder considerably reduces the overall influence of proxy advisor recommendations compared to widely-held companies.
- Controlled companies have relatively more AGAINST recommendations than widely-held companies.
- Despite the rather small influence of proxy recommendations, controlled companies should seek an engagement with shareholders to be prepared in case the blockholder will sell the stake to a wide range of investors.

	ALL FOR	ONLY SWIPRA AGAINST	ONLY ETHOS AGAINST	ONLY INRATE AGAINST	ONLY ISS* AGAINST	ALL AGAINST
AGAINST votes (median %)	0.20%	0.46%	3.40%	1.57%	15.20%	9.60%
Recommendations (n)	179	7	10	5	32	6

The analyzed sample contains 45 observations for companies of the SMI Expanded® Index that held their AGM between July 2015 and May 2016 and for which data is available.

* Please refer to footnote ** on slide 11.



VI. Proxy Advisors (IV) Different Philosophy - Overall

- On average, SWIPRA's voting recommendations correspond to its peers' recommendations in nine out of ten agenda items.
- The high level of overlap is mainly driven by the many uncontested agenda items (e.g., approval of financial statements), while the variation is largely concentrated on important votes on compensation issues or certain board elections.

ETHOS				INRATE				ISS*			
		FOR	AGAINST			FOR	AGAINST			FOR	AGAINST
SWIPRA FINAL	FOR	926	137	SWIPRA FINAL	FOR	893	66	SWIPRA FINAL	FOR	887	102
	AGAINST	25	28		AGAINST	14	22		AGAINST	23	26
Overlap: 85.5%				Overlap: 92.0%				Overlap: 88.0%			

* Please refer to footnote ** on slide 11.

The analyzed sample contains 45 observations for companies of the SMI Expanded® Index that held their AGM between July 2015 and May 2016 .



VI. Proxy Advisors (v) Different Philosophy - Compensation

	AGM	Recommendation Overlap	
		Compensation Report	Compensation Amounts
SWIPRA - ETHOS	2014	60.00%	
	2015	36.36%	56.53%
	2016	45.24%	58.27%
SWIPRA - INRATE	2014	51.40%	
	2015	57.57%	84.21%
	2016	69.23%	81.58%
SWIPRA - ISS*	2014	77.10%	
	2015	72.73%	83.33%
	2016	74.36%	85.71%

- For votes on compensation amounts, proxy advisors have remained with their general philosophy, leading to an almost unchanged overlap in recommendations.
- The choice of whose recommendation to follow remains very important.

* Please refer to footnote ** on slide 11.

The analyzed sample contains 45 observations for companies of the SMI Expanded® Index that held their AGM between July 2015 and May 2016 and for which data is available.



VI. Proxy Advisors (VI)

Different Philosophy – Elections I

	AGM	Recommendation Overlap	
		Chairman Election	Compensation Committee Election
SWIPRA FINAL - ETHOS	2014	88.37%	83.56%
	2015	94.74%	88.67%
	2016	91.70%	85.50%
SWIPRA – INRATE	2014	95.35%	91.09%
	2015	94.74%	92.67%
	2016	93.18%	89.35%
SWIPRA FINAL – ISS*	2014	76.19%	79.86%
	2015	78.95%	84.00%
	2016	80.00%	83.38%

- For chairman and compensation committee elections the overlap between proxy advisor recommendations is relatively high, though *decreased* during the financial year 2015.
- Despite the considerable overlap, important differences exist in individual recommendations and will be especially important when assessing contested elections.

* Please refer to footnote ** on slide 11.

The analyzed sample contains 45 observations for companies of the SMI Expanded® Index that held their AGM from July 2015 to May 2016 and for which data is available.



VI. Proxy Advisors (VII)

Different Philosophy - Board Elections II

- Approval rates for the different elections to the board are generally very high, but also subject to considerable variation. Overall, approval rates for board elections have increased notably.
- Proxy Advisors are generally more critical with respect to elections to the board than shareholders, though there is a considerable variation with respect to the against recommendations.

	AGAINST votes (%)		AGAINST Voting Recommendations (%)					Items (n)
	Mean	Median	SWIPRA INITIAL	SWIPRA FINAL	ETHOS	INRATE	ISS*	
Board elections	3.08%	0.73%	22.61%	1.45%	5.80%	4.64%	11.30%	345
Chairman elections	4.47%	1.92%	11.90%	0.00%	7.14%	7.14%	21.43%	42
Remuneration committee elections	4.38%	1.13%	38.19%	6.94%	11.81%	9.03%	18.06%	144

* Please refer to footnote ** on slide 11.

The analyzed sample contains observations for 45 companies of the SMI Expanded® Index that held their AGM from July 2015 to May 2016.



VI. Proxy Advisors (VIII)

Different Philosophy - Board Elections III

- Overlap between proxy advisor recommendations decreases significantly for directors with an age above 70, indicating the differences in the analysis approach between proxy advisors.
- Proxy advisors' voting recommendations are determined significantly by their analysis approach. For board elections, the value-centered approach as chosen by SWIPRA seems to be most in line with shareholders' general voting pattern (see slide 11).

	Recommendation Overlap		
	Director Age		
	< 65y	65-70y	70y+
SWIPRA – ETHOS	89.95%	90.43%	78.79%
SWIPRA – INRATE	94.56%	96.81%	87.88%
SWIPRA - ISS*	85.83%	87.21%	82.76%

* Please refer to footnote ** on slide 11.

The analyzed sample contains observations for 45 companies of the SMI Expanded® Index that held their AGM from July 2015 to May 2016.



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