

Press Release

Analysis and Interpretation of the AGM Season 2017

Zurich, June 16, 2017 – Annual general meetings (AGM) 2017 were characterized by an increasing opposition to compensation-related agenda items. The high level of criticism regarding compensation is to some extent a Swiss phenomenon as compensation reports were seen much more critical in Switzerland than in comparable foreign markets. This is due to the still widely spread standardized view of corporate governance, predominantly affecting smaller companies. They faced significantly higher against votes than larger companies. Proxy advisors also became increasingly critical, and a growing number of prominent, publicly discussed cases were sometimes difficult to objectively reconcile. The actual voting outcomes at the AGMs 2017 were ultimately much less critical than one could have initially expected. Shareholders still seem to have a generally high level of trust in their boards.

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

- Shareholders voted more critically on all compensation-related AGM items: In companies without a single shareholder owning more than 20% of voting rights, 14.6% of shareholders voted against the compensation report (12.3% in 2016), 6.3% against the compensation amounts for the executive committee (4.6% in 2016) and 3.7% against the elections to the compensation committee (1.2% in 2016; all numbers are statistical medians).
 - Particularly pronounced at Non-SMI companies: 16.3% of the investors voted against the compensation report in these companies and 5.8% against elections to the compensation committee.
 - Votes of the most controversial AGMs turned more negative: At the most disputed AGMs (top 10%), more than 40.0% of the shareholders voted against the compensation report, more than 24.0% against the compensation amounts for the executive committee, and more than 16.0% against the elections to the compensation committee.
- Compensation reports are perceived as more critical in Switzerland than in the US, where only 4.7% of the shareholders voted against the report, or the UK, where the opposition stood at 3.2%.
- The level of concern of many proxy advisors and the public is often significantly higher than the investors' ultimate votes at the AGMs:
 - Some proxy advisors recommended to vote against more than 20% of all items, the actual rejection rate was, however, only slightly above 1% of all items; however, if several proxy advisors recommend to vote against an item, they may influence up to 30% of the votes at an AGM.
 - Some proxy advisors recommended to vote against the compensation report in over 40% of the firms.
 - The fraction of negative voting recommendations of the largest proxy advisor is significantly higher for Non-SMI companies than for SMI companies. While it was recommended to vote against 20% of the compensation reports of SMI companies, this was the case for over 47% of the Non-SMI companies. This is to some extent reflected in the overall higher actual AGM against votes at Non-SMI companies.
- The fraction of women on boards of directors of Swiss companies increases steadily: Over the last two years, 30% of the newly elected board members were women.

Barbara Heller, CEO of SWIPRA, comments: "The significant contrast in certain areas is remarkable: between smaller and larger companies, between the public perception, proxy advisors and actual voting outcomes or between Swiss and foreign AGMs. This development already emerged from our corporate governance surveys conducted in the past years, illustrating the importance of engagements between market participants regarding the complex topics of corporate governance".



Compensation-related agenda items – increasingly criticized

During the 2017 AGM season, remuneration was again in the focus and increasingly criticized. For the first time, shareholders rejected an amount for short-term variable executive compensation and did not re-elect a member of a remuneration committee. Shareholders rejected the remuneration report with 12.2% of the votes (median level), in the worst quartile of companies (without major shareholder) negative votes even amounted to more than 24.0%. The median compensation amount for full-year CEOs was lower compared to 2016 and to a large extent based on the performance of the company: On average, 50% of total compensation is dependent on the companies' performance, for SMI companies even more than 60%. During the current AGM season, an increasing opposition against compensation amounts as well as elections to the compensation committee could be observed. While such rejection rates are still on a low level, the growing objection against compensation amounts over the past years is striking and a sign of increasing shareholder discontent. On the basis of the findings of the most recent SWIPRA Corporate Governance Surveys, this development could have been expected to some extent and is related to the different perceptions of companies and their shareholders regarding disclosure and transparency. This trend is expected to continue as in cases with high levels of performance-related compensation the quality of disclosure becomes especially important. Notably, in the public discussion, compensation amounts are still largely misunderstood and often seen as fixed and secured salaries. Compensation amounts as disclosed in compensation reports, however, should only be considered by taking into account the compensation structure, the underlying compensation system as well as the often complicated valuation methods. A simple comparison of the reported total amounts is clearly insufficient.

Compensation report – Switzerland a special case?

In Switzerland, shareholders' rejection rates in compensation report votes were above 10% (median level) in the past years, for the worst quartile of Swiss AGMs even above 20%. This contrasts to the USA and the UK, where the median compensation report was rejected by only 3-4% (7.1% for the worst quartile) and less than 3% of the shareholders (7.9% for the worst quartile), respectively. An analysis of the voting behavior of some of the largest international investors even highlights a more striking variation: A large international investor rejected 75% of the compensation reports in Switzerland, compared to 47% in the UK, and another large international Swiss-based investor voted against 35% of the compensation reports in Switzerland, compared to only 6% in the UK. One explanation for these observations may be the more standardized reporting requirements for compensation reports in the UK and the US as opposed to Switzerland, allowing an easier comparison between companies. It is important to note, however, that this does not mean that the overall disclosure quality of these reports is ultimately better. The analysis of less standardized information is, however, much more demanding and requires additional time. Large investors and proxy advisors hardly have this time during the busy AGM seasons. SWIPRA observes that this often leads to fewer engagement discussions between investors and their investee companies, which is particularly a problem for smaller companies. This shows the importance of engaging during the year so that companies and their shareholders are able to discuss potentially critical items and their development over time.

Shareholder criticism – a two class society

The AGM analysis 2017 reveals a strong variation in the voting behavior of investors at AGMs of SMI and Non-SMI companies (measured by the SPI Middle index, the largest 100 companies without the SMI companies). Accordingly, Non-SMI companies were exposed to substantially more criticism by their shareholders as well as by proxy advisors: Shareholder votes against the compensation reports in the most critical quartile of the SMI companies were above 20%, and even reached more than 30% for Non-SMI companies. Similar observations can be made for chairman elections and elections of compensation committee candidates. In the most critical quartile of the SMI companies, 4.6% of the shareholders voted against the proposed election of the chairman, only about a third of the 13.0% against votes at Non-SMI companies. This difference can be explained by a generally less established communication regarding corporate governance topics between smaller companies and their shareholders, generally resulting in less transparency and less comprehensive



disclosure on the side of smaller companies and less willingness by large shareholders and proxy advisors to conduct an individual, company-specific analysis.

Proxy Advisors – criticism and responsibility

Proxy advisors issued more AGAINST recommendations during the AGM season 2017 relative to previous years. For companies of the SMI Expanded, ISS provided 15.3% negative recommendations (10.5% in 2016) and Ethos 18.5% (13.8% in 2016). In the case of SWIPRA, the initially critically analyzed agenda items remained stable at 25.5% (26% in 2016), while the final recommendations following an interaction with companies resulted in against recommendations in 6.2% of the votes (3.6% in 2016). The increased amount of AGAINST recommendations was more accentuated for Non-SMI rather than SMI companies, and raises the question whether voting recommendations were developed responsibly. Certain proxy advisors recommended to reject over 50% of all compensation reports as well as executive compensation amounts. In case of a non-election of a proposed chairman of the board of directors without an eligible replacement candidate, a board would need to immediately take over the full responsibilities for the role of the chairman the day after the AGM. Certain proxy advisors recommended to reject the proposed chairman candidate in more than 15% of the cases. In SWIPRA's view, a negative recommendation may be justified in well substantiated situations, for example when companies do not amend their governance structure over time following a contested AGM or during phases of disappointing business performance. This shows that critical issues have to be addressed in a constructive dialogue over time between companies, their shareholders and proxy advisors in order to avoid damaging contested situations at AGMs.

Differences in opinions – Shareholders and the public opinion

In the public, the AGM season 2017 was characterized by a focus on select AGMs with controversial agenda items. Sometimes proxy advisors had a particularly crucial role, influencing the public opinion through negative recommendations and public statements ahead of the AGMs. Based on this observation, critical voices regarding the real role of proxy advisors and their responsibilities are understandable, especially in cases where their recommendations are positioned in an almost regulatory manner. Results at AGMs often show a clearly different picture, deviating substantially from the public perception. The negative voting recommendations of many proxy advisors of over 10% of all agenda items stand against the overall negative votes cast by shareholders of only 1.4%. The same picture can be observed for compensation-related topics, which were perceived more negatively in the public and by the media than by the shareholders. It has, therefore, become less obvious to judge in what situations investors follow the advice of their proxy advisors. One interpretation of the results of this AGM analysis may be that shareholders rather tend to follow external advice in case of smaller companies, leading to higher negative voting outcomes in general than at the AGMs of larger companies. The difference in perception between the public and the shareholders has to be taken into consideration in the general discussion and the regulatory developments in corporate governance.

Detailed results and further information

A presentation with graphs, further information and analyses of the AGM season 2017 is available online at www.swipra.ch/AGM2017. It discusses questions on voting behavior related to compensation amounts or related to elections to the board of directors. The presentation further provides an overview and comparison of the different approaches employed by the largest proxy advisors in Switzerland and discusses 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 approximately 25% of the initially critical items. In this regard, SWIPRA is aware and accepts that many critically viewed issues may be resolved over time only.

Contact

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