Newsletter 6/2024

Swiss AGM Season Review 2024

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> Results Presentation
> 27 November 2024

Observations from the Swiss AGM Season 2024 and 10 years of say on pay

Zurich, 27th June 2024 – The 2024 Swiss AGM season marks the 10th anniversary of shareholders' "Say on Pay" in Switzerland ("Minder Initiative"). SWIPRA's analysis reveals a record level of shareholder AGAINST votes on compensation items. Ever since, shareholders have been requesting more transparency on variable pay, recently especially ESG bonus incentives. Such elements are widely used by now, but rarely explained.

And with gender representation on the board increasingly on track, but global challenges growing, shareholders' focus shifts to other diversity aspects. Boards must demonstrate command over business-relevant skills and experiences to meet strategic challenges and cope with ever more distinct stakeholder expectations. This transparency is often not provided yet.

While 2024 shareholder votes on non-financial reports were overwhelmingly in favor, such an outcome cannot be taken for granted for future AGMs. Companies are increasingly under observation by shareholders and other key stakeholders to act in line with their ambitious goals and have now become even more accountable in their sustainability efforts.

Compensation – Key observations 2024 and what has changed in the 10 years since Minder?

- **Compensation Votes (AGM votes)**

  Overall 61 of the 100 agenda items with most AGAINST votes were compensation related

  Compensation report 15.3% AGAINST votes in 2024, highest level since introduction of the vote and almost 50% higher than in 2014

  Compensation committee 5.8% AGAINST votes in 2024, highest level since introduction of the vote and more than twice as high as in 2014

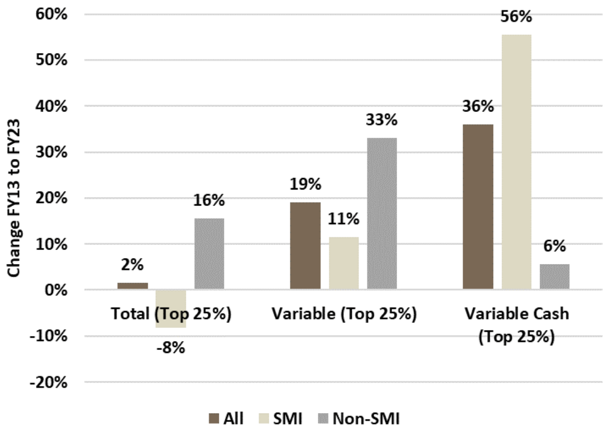
  Compensation amounts 5.3% AGAINST votes in 2024, slightly higher than at introduction (4.9%)

- **Quantum** Median total CEO compensation increased by 22% to CHF 8.2m for SMI and dropped by 16% to CHF 1.6m for non-SMI companies since the 2013 financial year
- **ESG incentives** $^{2}/_{3}$ of companies have an ESG metric in their variable compensation (100% of SMI companies), but in 57% this metric is an unexplained qualitative measure

Ten years after the ordinance against excessive compensation came into force in Switzerland, AGM results show that shareholders' compensation concerns have worsened rather than improved. In 2024, 61 out of the 100 agenda items with the most AGAINST votes were compensation related (37 in 2014) and three out of four board-sponsored agenda items that failed to receive shareholder support in 2024 concerned compensation (0 in 2014). Additionally, AGAINST votes on compensation reports reached an all-time peak with 15.3%, 50% more than in 2014 and almost double the European level. Shareholders finally want to understand how remuneration is linked to performance.

Compensation remains a highly debated topic, in the public, politics as well as for shareholders. Rather unexpected is the missing progress over the decade. Changing this requires shareholders to increasingly consider company-specific circumstances while companies need to pay more attention to compensation as potential negative reputational factor for the organization and its leadership, from the outside, as well as from the inside.

Figure 1: Changes in CEO compensation since FY13



While median CEO *base* compensation levels have decreased across SPI100 companies since 2014, median *total* CEO compensation in SMI companies increased. This is not mainly driven by performance, but even more so by structural changes to the remuneration systems. Over the past decade, the rise in variable compensation opportunities, both short- and long-term, led to higher total compensation levels in SMI companies: An achievement of performance targets would have resulted in a median payout of 220% of base compensation in 2014, the same achievement would have led to a payout of 250% in 2024. In case of overachievement, the maximum in 2014 would have been 350%, whereas in 2024, the maximum payout to the CEO would have been capped at 500% (median).

In non-SMI companies, median total CEO compensation levels dropped over the last decade, mostly due to lower base compensation levels. Structurally, these companies often introduced long-term, share-based compensation elements (already prevalent in SMI companies in 2014), replacing part of their short-term bonus plans. This increased the long-term orientation of their compensation packages.

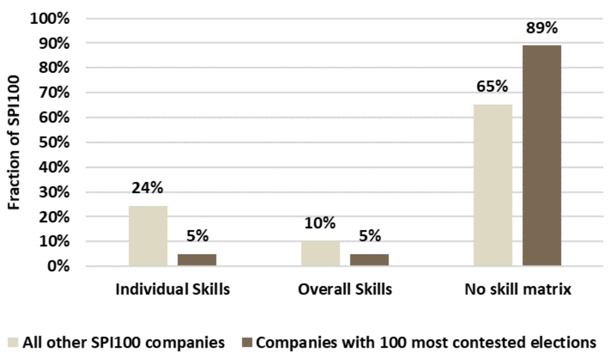
Board of Directors: Critical minority shareholders and focus on diversity beyond gender

- **Board elections** 22 board members would not have been elected without the support of their companies' anchor shareholders, median AGAINST votes were only 2.6%
- **Chair elections** Quarter of most contested elections received 38.6% AGAINST votes, while the median AGAINST votes was 9.6%
- **Gender** Female representation increased again in the SPI100, from 30.8% to 32.8%
- **Spillovers** Companies with highest level of AGAINST votes on compensation report got an average of 15% AGAINST votes on compensation committee elections vs. 5% for all other companies
- **Committee chair elections** Median AGAINST votes in elections of directors chairing the compensation committee: 13.7%, the nomination committee: 8.8% and the sustainability committee: 4.6%
- **Transparency on board composition** Of companies with the lowest board election approval rates, only 10% disclosed information on skills and experiences of their directors.

Boards need the right mix of skills and experiences. This starts with understanding and actively mapping current and required future board skills for long-term success. Much of the attention regarding the composition of a board was focused on gender in the past, resulting in a continuous increase of female representation. Today, the focus is on the numerous parallel and complex business challenges which boards need to deal with, independent of personal diversity.

Yet only about a third of institutional shareholders believe boards are equipped sufficiently (SWIPRA Survey 2023), aligned with the observation that among SPI 100 companies with the lowest board election approval rates at their 2024 AGM, only 10% disclosed comprehensive information regarding the skills and experiences of their directors. Three times fewer than at other SPI100 companies. Nomination and board chairs usually spend significant time on careful succession planning and selecting the next board candidates. Transparency on the skills and experiences of these board members should be actively communicated to increase trust and credibility of the leadership team.

Figure 2: Disclosure of skills & experiences of the board



Also, proxy advisors and institutional shareholders are increasingly expecting companies to not only disclose information on such skills and experiences, but also on board refreshment processes and board performance evaluations. So far, only few companies disclose such information: among SPI100 companies, only 58% indicated that they conduct a board assessment, 75% of which with an internal survey. Externally supported board assessments are still very rare (only 13% of sample companies provided respective information). To keep up with market challenges and expectations and live up to own standards, such assessments will likely become more prevalent going forward as can be observed in international peer markets.

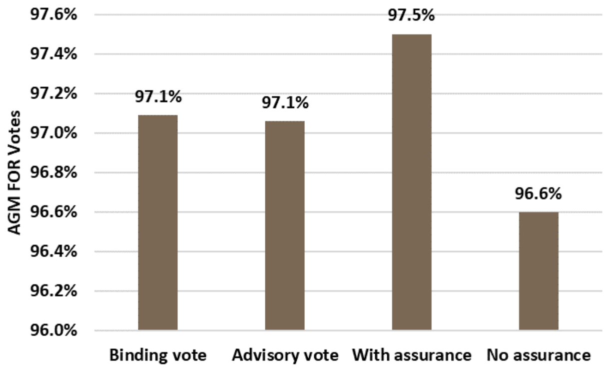
AGM votes on the non-financial report: A non-event?

- **Voting structures** SPI100: 45% advisory, 55% binding (SMI: 56% advisory, 44% binding)
- **Frameworks** GRI most widely spread (92%), use of TCFD increased significantly (73%, up from 37% a year ago)
- **Assurance** 54% with external assurance, which had no influence on AGM voting outcomes for the non-financial report
- **Proxy advisors** ISS/GlassLewis: 100% FOR, Ethos: 55% AGAINST
- **Votes** Average AGM approval rate of 97.1%, independent of binding/advisory vote

The new mandatory shareholder vote on the non-financial report resulted in approval rates close to those of financial reports (99.6%). This contrasts sharply with past years, when the average approval rate for similar items was more than ten percentage points lower and is also slightly higher than similar votes in the EU (94.1% approval). The higher approval could be due to improved sustainability efforts of Swiss companies or, alternatively, the overwhelming amount of information provided that cannot yet be processed by the shareholders.

One should not expect approval rates to stay at the same levels. Next year's votes may already focus more on accountability of targets and results achieved, in particular accomplishment along the transition path, rather than reporting frameworks and KPIs. This will be a challenge as according to CDP filings, only one in four SPI100 companies has aligned its capital spending with its climate transition plan.

Figure 3: AGM outcomes for non-financial reports



In 2024, 56% of SMI companies chose an advisory vote for sustainability reports, while 52% of smaller companies opted for binding votes. Both types received 97% support, showing the voting regime had no impact. The choice of external assurance also had little effect; assured reports were approved by 97.5%, and non-assured reports by 96.6%. Should the actual implementation and progress in sustainability-related goals not keep up with expectations, it is likely that external assurances may receive much greater attention and become more impactful going forward.

The debate over which reporting framework to use has lessened as regulations have been put in place. Swiss regulatory requirements related to TCFD (or comparable) have led to a triple of the use of this standard among smaller companies over the past year. And SBTi, increasingly considered "best practice", received commitments 43% of SPI100 companies. Considering this development, companies will have less possibilities to distinguish themselves and increase sustainability scores by just reporting according to yet another framework. Going forward, distinction and leadership will not come from additional reporting, but from showing real achievements on existing targets and strategic goals.

On the SWIPRA's AGM analysis 2023/2024

SWIPRA, together with researchers from the University of Zurich, analyzed the results of the AGMs of the 100 largest listed Swiss companies held between July 1, 2023, to June 10, 2024. Unless otherwise indicated, shareholder votes analyses exclude holdings of large anchor shareholders such as families or the government. ISS recommendations are not publicly available and are approximated by market observations. The overall analysis contains more data than described here. For further information, please contact SWIPRA Services.

About SWIPRA Services

SWIPRA Services provides **corporate governance and corporate social responsibility services** for listed companies and their boards of directors. We provide our clients with hands-on advice that takes into consideration relevant stakeholder opinions with 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

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

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