



The SWIPRA Corporate Governance Survey 2020



SWIPRA Corporate Governance Survey 2020

- 8th SWIPRA Corporate Governance Survey
- Scientifically-founded market analysis of investors' and corporate issuers' views over 8 years
- Survey covers developments in governance in the Swiss market and includes views on current topics
- In cooperation with researchers at the DBF (UZH)



SWIPRA Corporate Governance Survey 2020

➤ Special thanks to our partners



Event partners



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SWIPRA Corporate Governance Survey

Key findings over time


- 
- 2013 Status quo and perspectives of corporate governance in Switzerland
 - 2014 After the Ordinance against Excessive Compensation
 - 2015 Market discipline and regulation
 - 2016 Corporate governance between globalization, shareholder activism and proxy advisors
 - 2017 Governance Activism – The increasing importance of corporate governance in fund managers’ decision making
 - 2018 Who decides, who takes responsibility?
 - 2019 Corporate Social Responsibility: New relevance for the board?
 - 2020 What role do boards of directors and investors play in the pursuit of social responsibility?

Through the survey, SWIPRA identified early the relevance of (i) an integrated framework of Strategy, Corporate Governance and Corporate Social Responsibility, (ii) a dialogue through engagements between boards and stakeholders, (iii) a high-level quality of corporate disclosure, in particular also regarding incentive schemes as well as (iv) the boards’ composition.



SWIPRA Corporate Governance Survey

Survey relevance over time *



2015	77.9% of SPI [®] market cap and 18.8% of global equity AuM
2016	81.3% of SPI [®] market cap and 21.2% of global equity AuM
2017	79.3% of SPI [®] market cap and 20.8% of global equity AuM
2018	77% of SPI [®] market cap and 26% of global equity AuM
2019	78% of SPI [®] market cap and 30% of global equity AuM
2020	77% of SPI [®] market cap and 27% of global equity AuM representing approx. EUR 23.7tn equity assets Total of 149 participants: 73 issuers, 45 asset und fund managers (approx. 33% non-Swiss), 31 pensions funds

* Only reflecting those participants providing identification information. From 2015 on including international investors.



Plan for this presentation

- **Key results - SWIPRA Survey 2020**
- Covid-19 - Accelerator, not trigger
- Board of Directors - More leadership and dialogue required
- Compensation - Systems are no longer up to date
- CSR - Ratings with great influence but little trust
- Additional topics
 - Regulation – Views on regulation
 - Audit – Towards another expectations gap



Key results (I/II)

➤ **Covid-19 - Accelerator, not trigger**

- Little direct influence on corporate strategy, but engagement topics will be re-focused on new priorities
- Going forward, preference clearly is on hybrid instead of physical AGMs, while virtual-only meetings receive only little support

➤ **Board of Directors - More leadership and dialogue required**

- Boards of Directors seen in charge for strategic CSR integration, but do not yet meet shareholders' expectations with regard to leadership
- CSR efforts still seen largely disentangled from corporate strategy
- Boards also seen in lead to for global supply chain responsibility, but more disclosure on preventive policies and their enforcement required to judge effort

➤ **Compensation - Systems are no longer up to date**

- No consensus amongst market participants on how to reflect the actual economic situation in performance-linked compensation for 2020
- Compensation systems need more "E & S" and less financial performance targets
- Investors continue to struggle with AGM compensation votes in Switzerland



Key results (II/II)

➤ **CSR - Ratings with great influence but little trust**

- Clear preferences for specific rating providers
- CSR ratings predominantly used for valuation purpose or to exclude specific companies from the investment universe
- Shareholders' rating selection weights quantity over quality and market overall shows little trust in reliability of these ratings

➤ **Regulation – Views on regulation**

- High willingness of institutional investors to support shareholder-sponsored proposals
- Strongly diverging views on usefulness of say-on-sustainability
- Different opinions of issuers and investors on Swiss Code of Best Practice in Corporate Governance

➤ **Audit – Towards another expectations gap**

- Opposite views on external auditors, with shareholders questioning their independence
- Market is of the opinion that the external audit has a fraud detection obligation and is expected to monitor the proper use of government-backed Covid-19 loans



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Institutional Investors



Companies

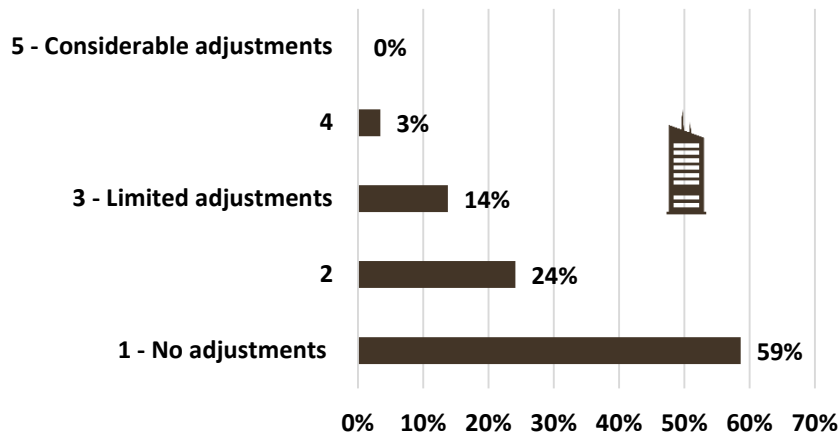


Covid-19 - Accelerator, not trigger

Covid-19 impact on risk management and strategy

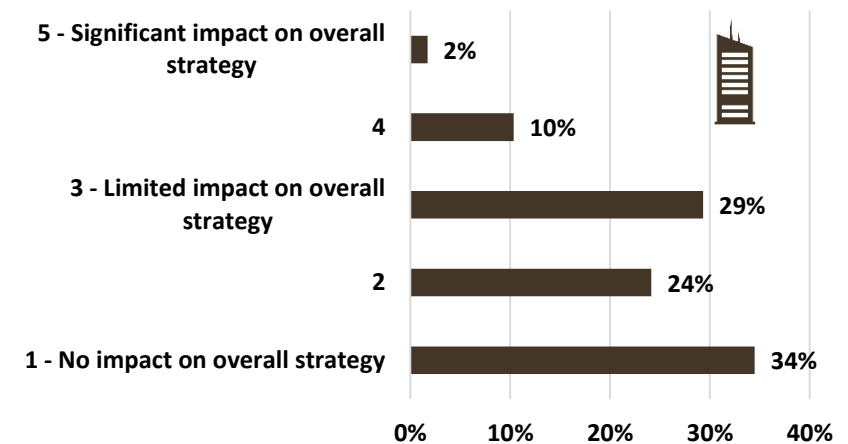
Impact on existing risk management framework

Survey 2020



Impact on corporate strategy

Survey 2020



- Impact of Covid-19 on companies' risk management and strategy perceived to be rather limited
- Main effect concerns liquidity, cash and capital management (51%) or acceleration of CSR integration into overall business strategy (37%)

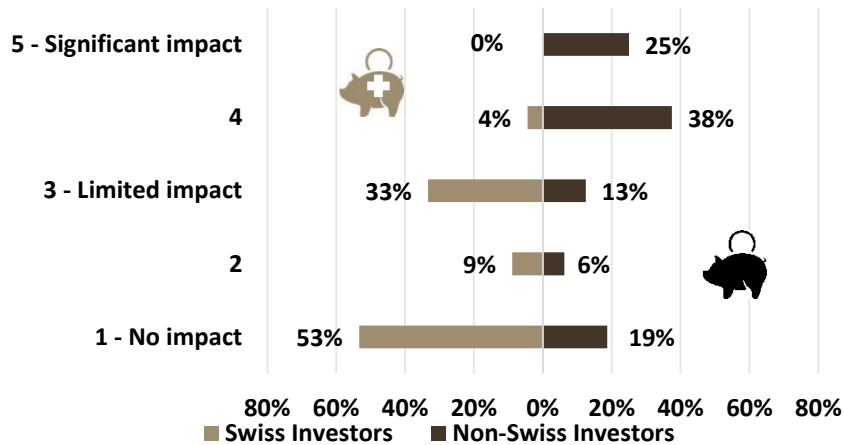
Questions: [left] How did your company's strategic risk management perform in the Covid-19 pandemic? [right] Does the Covid-19 pandemic have an impact on your company's overall strategy?



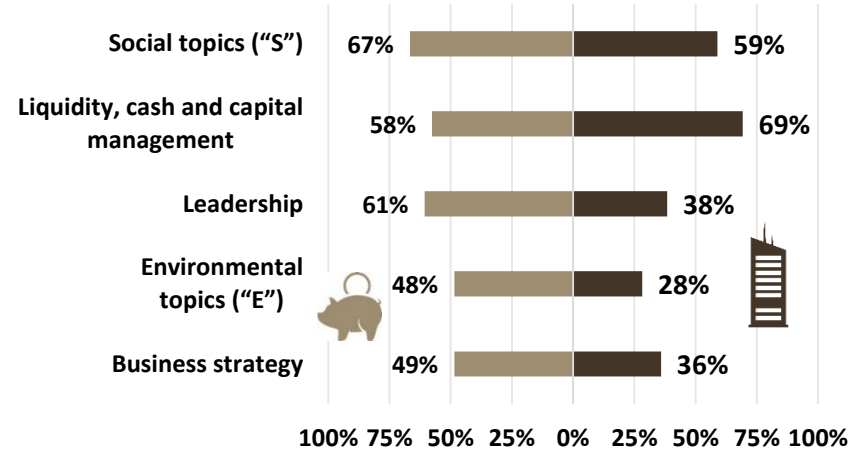
Covid-19 - Accelerator, not trigger

Covid-19 impact on engagement priorities

Impact of Covid-19 on engagement topics Survey 2020



New engagement priorities Survey 2020



- Covid-19 clearly changes the engagement focus of foreign (63%), but not for Swiss (4%) shareholders
- Shareholders engagement priorities will focus on social topics, to a lesser extent on liquidity, cash and capital management

Question: [left] Does the Covid-19 pandemic have an impact on your priorities in engagements with shareholders/portfolio companies on corporate governance/corporate social responsibility? [right] What influence do you expect the Covid-19 pandemic to have on your corporate governance/CSR engagement priorities with your portfolio companies? (Percentages summarize two answer options indicating higher priority)



Covid-19 - Accelerator, not trigger

Future of the annual general meeting

Preferred AGM format going forward

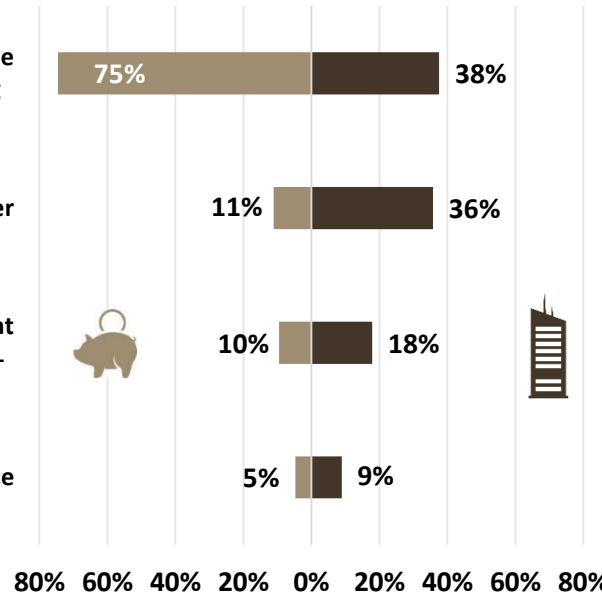
Survey 2020

Hybrid meetings with attendance either physical or virtual (real-time e-voting) and the possibility in both cases of delegated voting through the independent proxy

Physical AGMs combined with delegated voting through the independent proxy as per current Swiss law

Virtual AGMs with no in-person attendance and delegated voting through the independent proxy as well as the possibility of real-time e-voting

No preference



- Only 11% of institutional shareholders prefers the current physical AGM setting
- Covid-19 has accelerated the acceptance of a more virtual interaction
 - 64% of all survey participants see no difference in informational content between a physical and a virtual dialogue

Question: Going forward, the revised Swiss corporate law will allow for fully-virtual or hybrid annual general meetings in which case, however, it must be ensured that all shareholders have full real-time access to the AGM. What kind of AGM would you prefer going forward?



Plan for this presentation

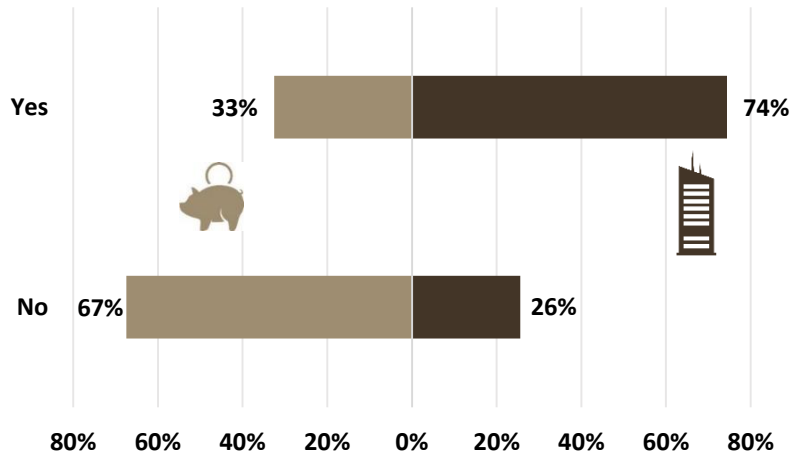
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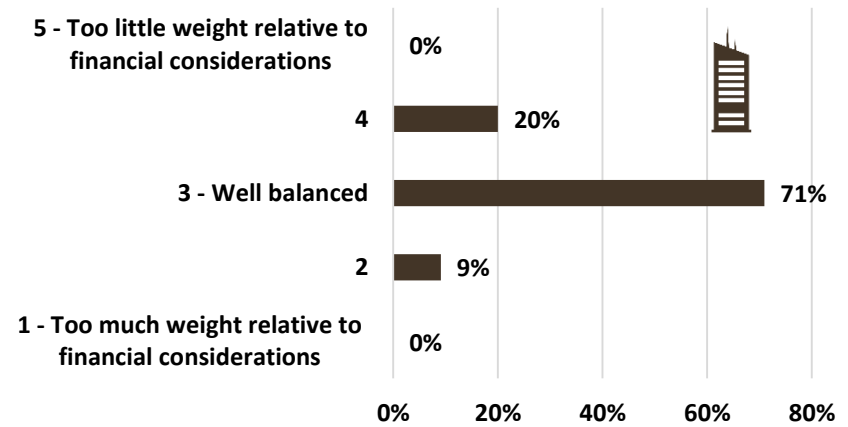
Board of Directors - More leadership and dialogue required

CSR strategy leadership

Sufficient Board leadership in CSR integration Survey 2020



Weight of CSR in the boardroom Survey 2020



- 75% of shareholders consider entire Board to be responsible for CSR strategy, but only 25% understand from disclosure who is taking this role within companies
- Majority of shareholders (67%) looking for more prominent role of Board in CSR integration
 - In 2019, only 22% of the investors considered Board leadership insufficient
- One out of five companies believe that CSR should get more weight in the Board’s strategic considerations

Question: [left] Are boards of directors in Switzerland taking sufficient leadership in integrating a company’s strategy with corporate social responsibility as well as incentives and capital allocation? [right] How do you judge the weight of corporate social responsibility in the strategy development process in the boardroom?

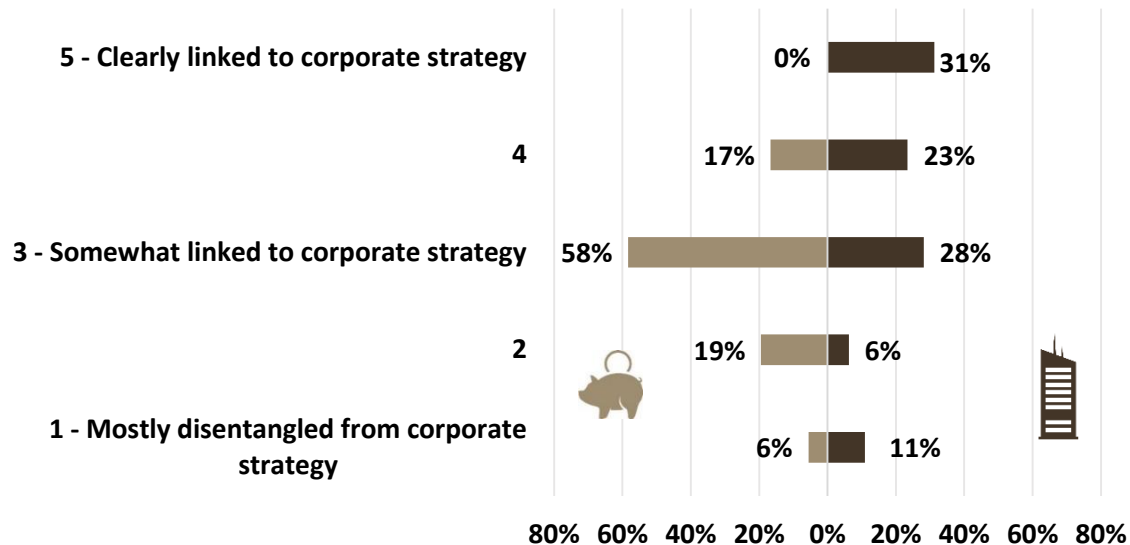


Board of Directors - More leadership and dialogue required

Integration of CSR and corporate strategy

Link between CSR and strategy

Survey 2020



- Gap in perception of how CSR disclosure is linked to strategy
 - 54% of issuers believe that there is clear link between CSR and strategy
 - 25% of investors believe that CSR and strategy disclosure is largely disentangled
- Due to the complexity of CSR integration, engagements with shareholders and a private-to-public dialogue are essential to complement the general disclosure strategy

Question: [Shareholders] How do you assess the disclosure of listed companies in Switzerland with respect to corporate social responsibility (CSR/ESG)? [Issuers] How do you assess the disclosure of your company with respect to corporate social responsibility?

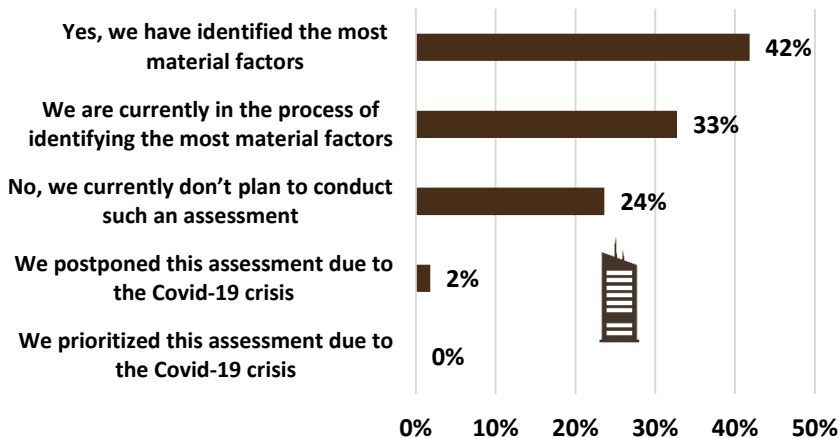


Board of Directors - More leadership and dialogue required

Materiality of CSR factors

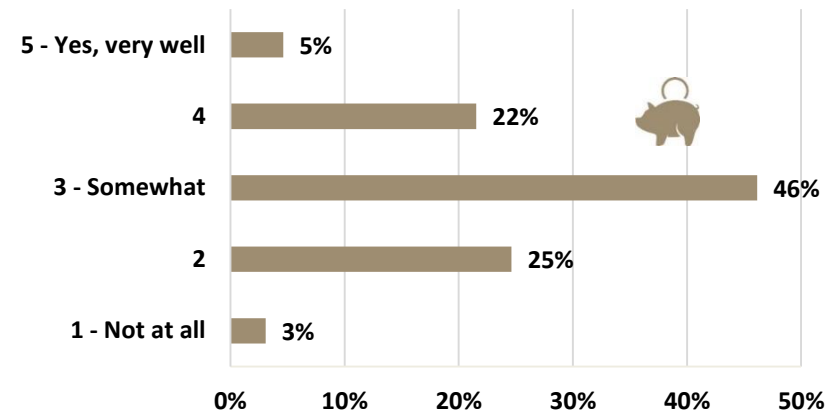
Identification of material CSR factors

Survey 2020



Shareholders understanding of material CSR factors

Survey 2020



- Material CSR factors are a natural candidate for non-financial performance targets, but...
 - Less than half of the issuers have identified their material CSR factors
 - Only 28% of the institutional shareholders understand which CSR factors are material for a company from the publicly available information

Questions: [left] Have you assessed the materiality of various CSR/ESG-measures to identify the most relevant ones for your company and its strategy yet? [right] Do you understand from the companies' disclosure, which CSR/ESG-factors are the most material ones for the individual company and how these factors are integrated into the companies' business strategies?

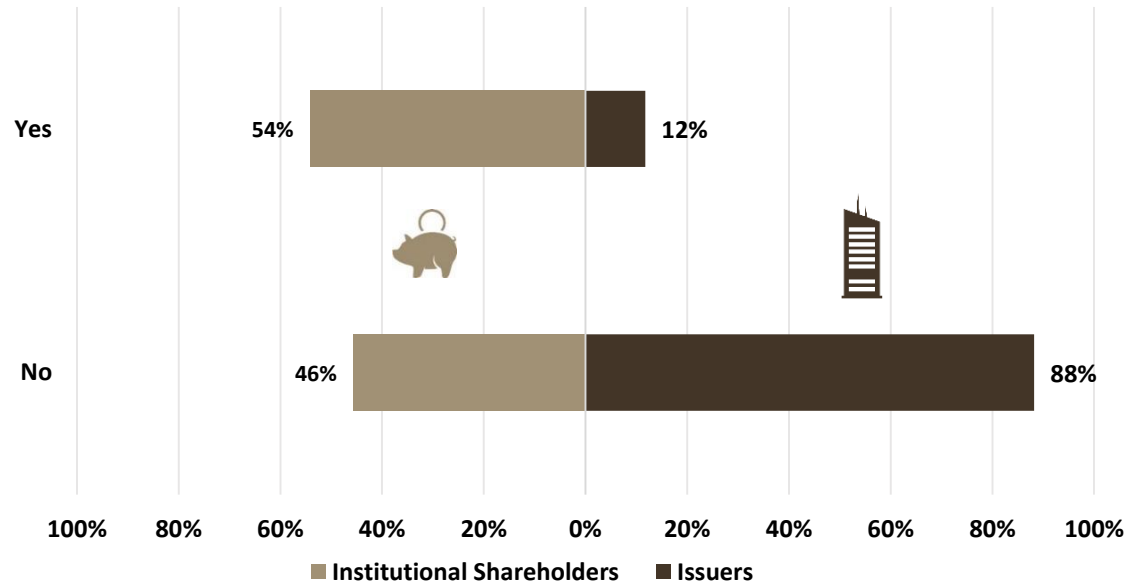


Board of Directors - More leadership and dialogue required

CSR responsibility in the global supply chain

Board responsibility for a company's global supply chain

Survey 2020



- Overall, shareholder support the notion that companies should take responsibility for their worldwide supply chain
 - Different view of Swiss and non-Swiss shareholders likely due to current discussion in Switzerland on how this responsibility should be defined

Question: Should companies and their boards of directors be held responsible for actions throughout their value chain, even for suppliers outside of the group which they can factually control in a relevant way?

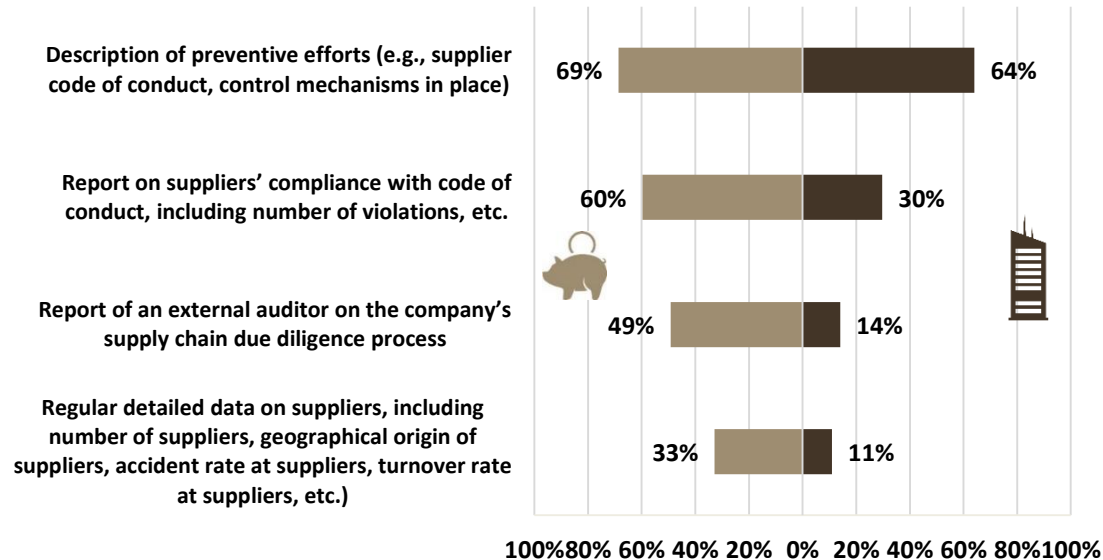


Board of Directors - More leadership and dialogue required

Supply chain responsibility

Relevant disclosure for assessing supply chain responsibility

Survey 2020



- Issuers and shareholders agree that disclosure of preventive efforts is the most relevant information to assess supply chain due diligence regarding social and environmental factors
- Contrary to issuers, shareholders also believe that the assessment of suppliers against these rules are relevant information, arguably because this indicates the integrity of these rules

Question: Various governments, including the Swiss, are currently thinking about regulations requiring holding- or parent-companies to conduct a proper due diligence with respect to social and environmental factors (e.g., child labor, resource pollution, ...) for the whole group, specifically within their global supply chain. What information do you deem relevant to assess a company's respective effort from the outside? (Percentages summarize fraction of "Yes" answers)



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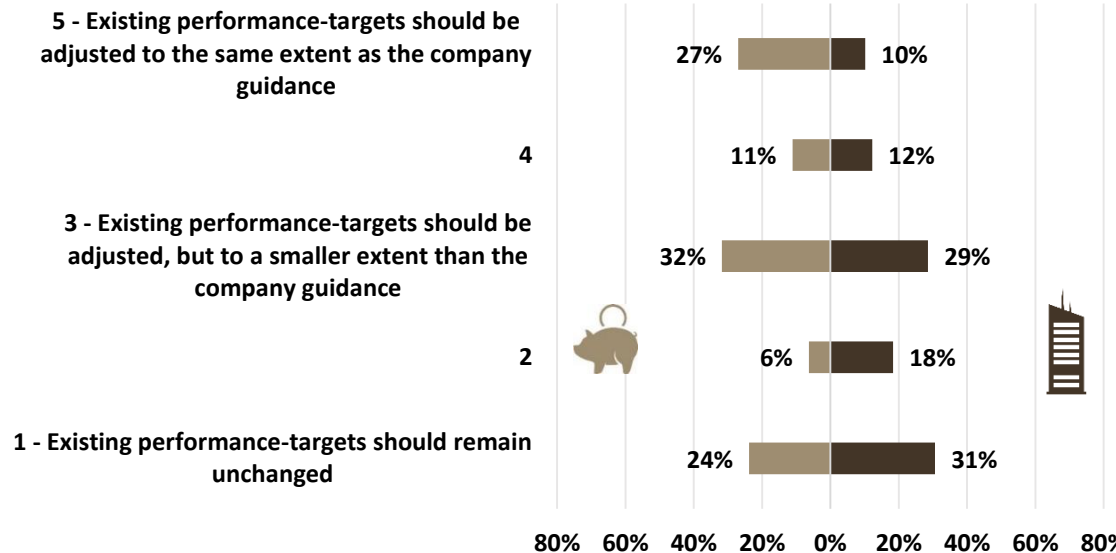


Compensation - Systems are no longer up to date

Performance evaluation and bonus payments for 2020

Adjusted performance-targets due to Covid-19

Survey 2020



- Institutional shareholders almost evenly split in how to handle Covid-19 impact, but
 - Majority of Non-Swiss shareholders believe performance-targets should remain unchanged
 - Only 21% of Swiss shareholders are of this opinion
- Almost half of the issuers are against performance-targets adjustments
- Survey 2017: 62% of investors and 44% of issuers believe that management and average worker pay development in a company should be aligned

Questions: In your opinion, how should existing performance-targets for variable compensation elements be adjusted in case a company makes an extraordinary guidance adjustment?

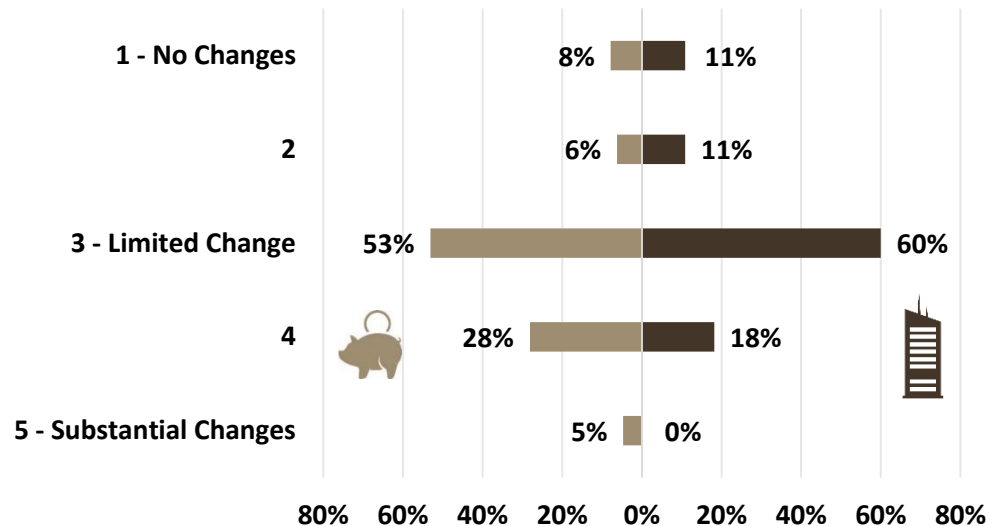


Compensation - Systems are no longer up to date

Integration of compensation, governance and CSR

Impact of integration on compensation systems

Survey 2020



- Diverging view on the impact of integration
 - 33% of the shareholders (56% of non-Swiss) believe that this will lead to notable changes in compensation systems
 - Only 18% of issuers are of this opinion
- Pay-for-performance disclosure will become more challenging, related quality currently still considered below average quality by 42% of shareholders

Questions: In light of the Covid-19 pandemic, compensation- and incentive systems have again come under more scrutiny by shareholders. This has arguably accelerated the already ongoing development towards a more integrated view on compensation, corporate governance and corporate social responsibility. In your opinion, will this development lead to changes in compensation and incentive systems going forward?

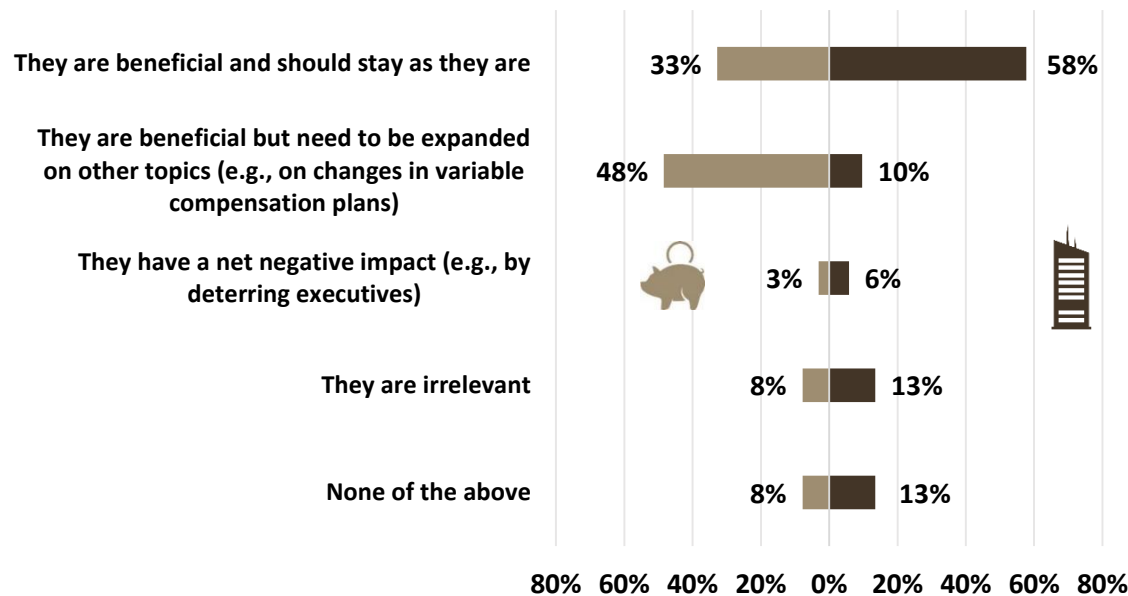


Compensation - Systems are no longer up to date

AGM compensation votes

Is the current say-on-pay setup in Switzerland sufficient?

Survey 2020



- Only 33% of the shareholders (but 58% of the issuers) are content with the current compensation voting regime in Switzerland
- 48% of shareholders, in particular non-Swiss shareholders, are looking for additional rights

Question: Since 2014, listed Swiss companies are required to hold binding say-on-pay votes on total director and executive compensation. The new corporate law will maintain this; in addition, it will require an advisory vote on the compensation report in most cases, as many issuers already hold it today on a voluntary basis. How do you generally assess these compensation votes, binding and non-binding, in terms of corporate governance?



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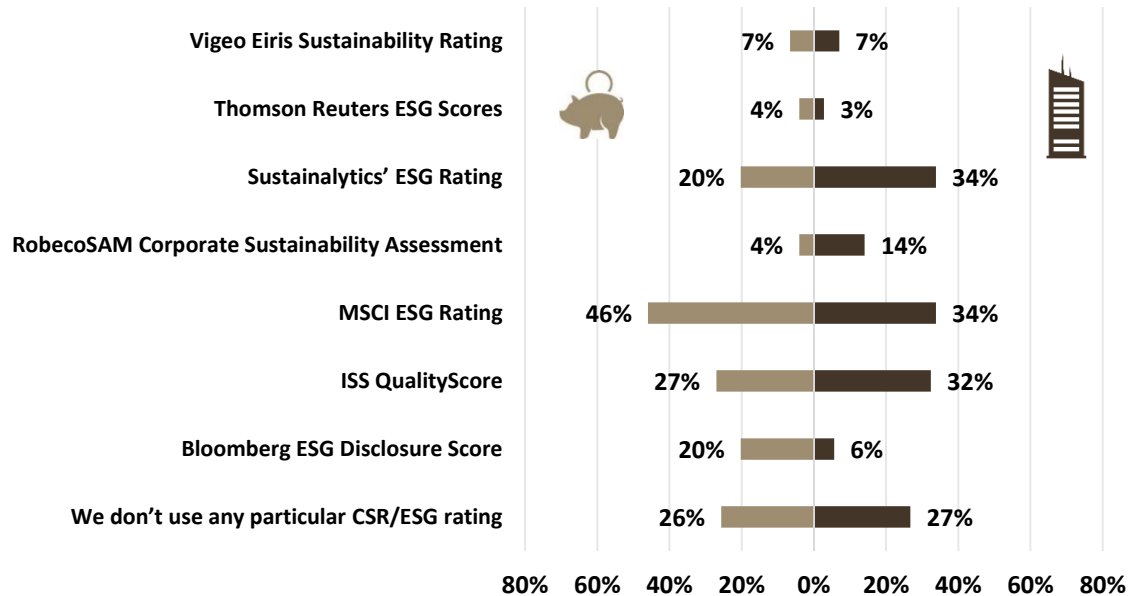


CSR - Ratings with great influence but little trust

Choice of CSR Ratings

Which ratings are used?

Survey 2020



- Overall, the most widely used CSR rating is provided by MSCI
 - 67% of international shareholders use the ISS Quality Score and the MSCI ESG Rating
 - 54% of Swiss shareholders use MSCI ESG Rating, 31% Bloomberg ESG Disclosure Score
 - Issuers use ISS Quality Score (32%), MSCI ESG Score (34%) and Sustainalytics' ESG Rating (34%)

Question: Which CSR/ESG-Ratings do you use for your analysis?

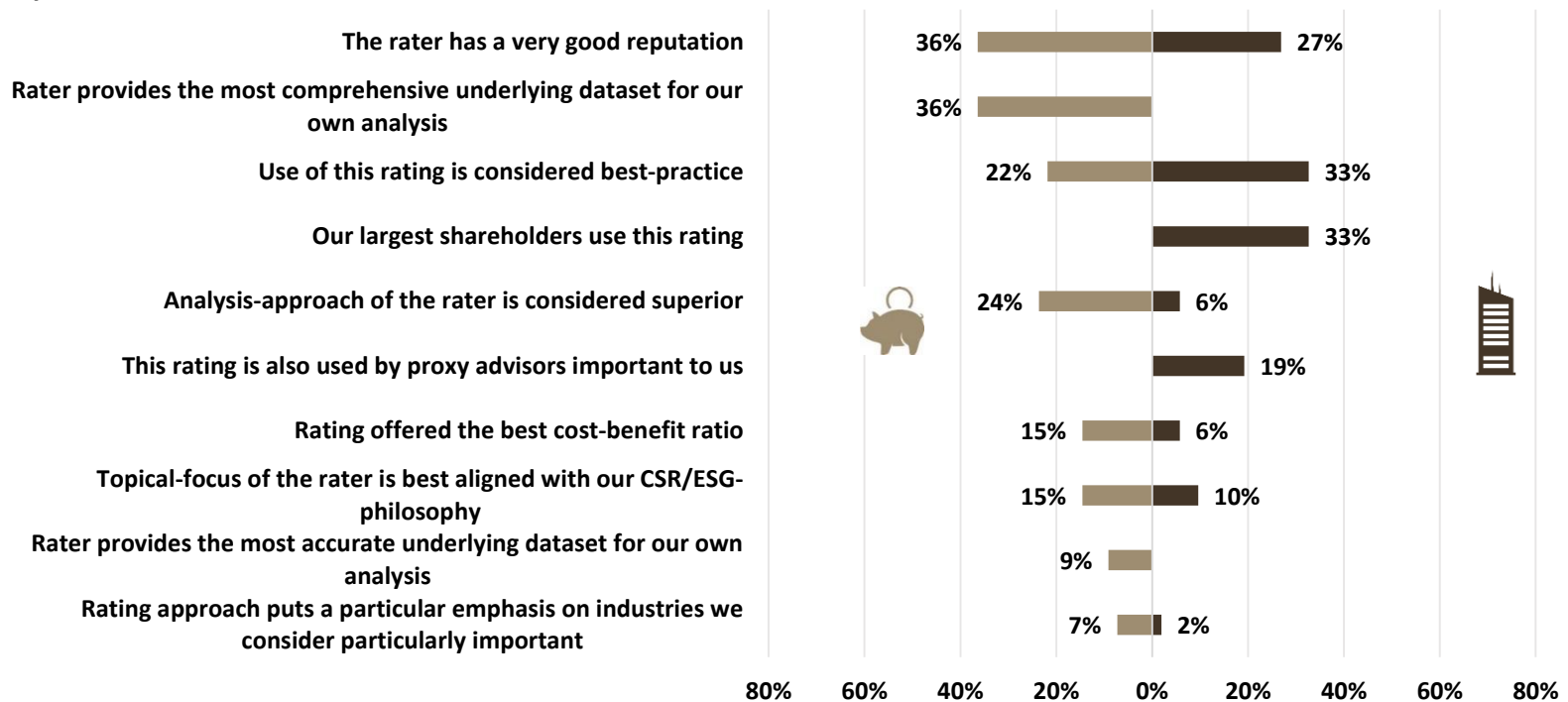


CSR - Ratings with great influence but little trust

Choice of CSR rating

What drives the selection of a specific CSR rating agency

Survey 2020



- Investors and issuers look for a credible source of CSR data, but
 - For shareholders, priority for quantity (36%) clearly beats quality (9%)
 - For issuers, ratings are mainly purchased to understand the outside view

Question: On what grounds did you decide on which CSR/ESG-Ratings to use?

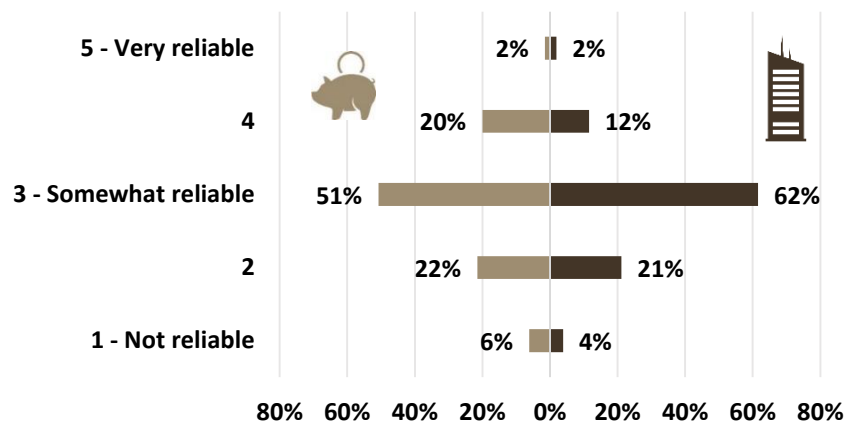


CSR - Ratings with great influence but little trust

Reliability of CSR ratings

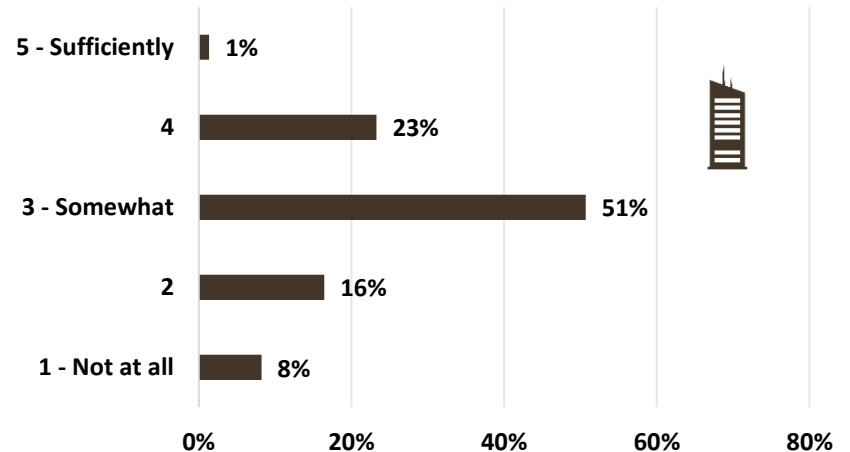
Reliability of CSR ratings for company assessment

Survey 2020



Reflection of actual effort in CSR ratings

Survey 2019



- 63% of shareholders expect a high impact of CSR ratings on disclosure and engagement and 34% on business strategy
- Only 22% of shareholders and even fewer issuers (14%) consider CSR ratings (very) reliable
- This is consistent with the finding from 2019, when less than 25% of the issuers stated that their efforts are not adequately reflected in these CSR ratings

Question: [left] In your opinion, how reliable/robust are the most widely used ESG-ratings (e.g., Sustainalytics, MSCI ESG, ISS Quality Score etc.) for an individual assessment of a company's ESG performance (i.e. how sustainable is a company overall?)? [right] In your view, to what extent are "ESG-ratings" reflecting the actual CSR-effort of your company?



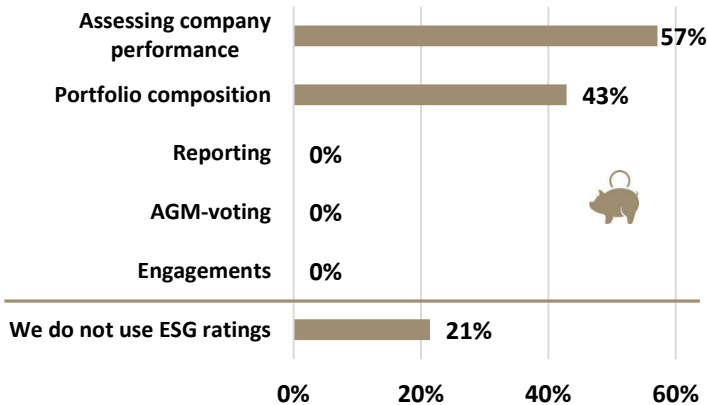
CSR - Ratings with great influence but little trust

Purpose of CSR ratings

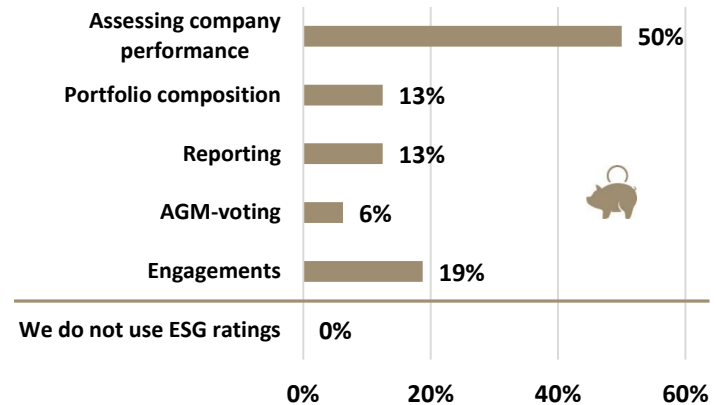
What are CSR ratings used for

Survey 2020

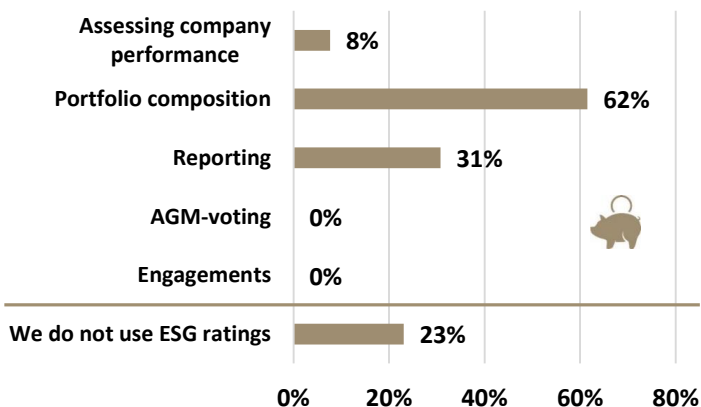
Swiss Asset Managers



Non-Swiss Asset Managers



Pension Funds



- Asset managers mainly use CSR ratings to assess company performance
- Swiss institutional investors still use CSR ratings a lot to select investment opportunities
- 21-23% of Swiss institutional investors do not use CSR ratings at all

Question: For your organization, what is the main purpose for purchasing ratings/data of ESG rating providers such as Sustainalytics, MSCI, ISS ESG or RobecoSAM?



Plan for this presentation

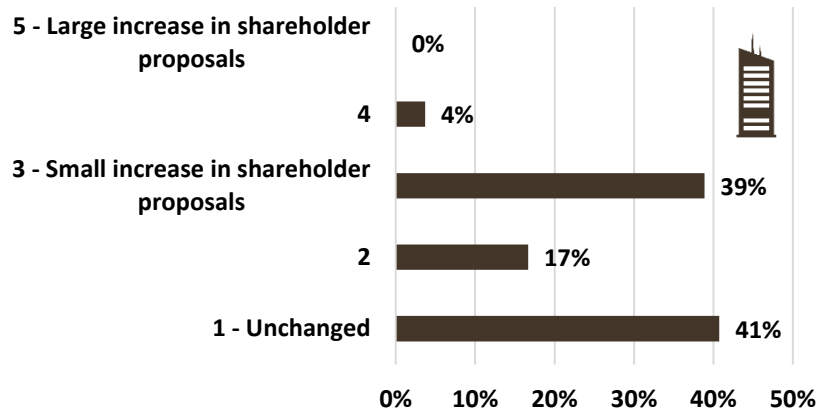
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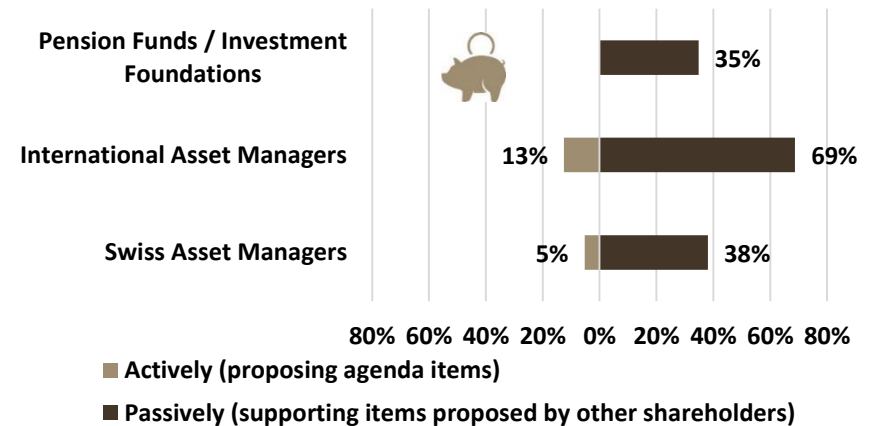
Regulation – Views on regulation

Impact on shareholder proposals

Expected increase in shareholder proposals Survey 2020



Expected support of shareholder proposals Survey 2020



- The revised Swiss corporate law lowers the threshold for shareholder proposals in many companies, but 58% of the issuers expect no or only a small increase in such proposals
- Asset managers and pension funds are reluctant to actively make proposals, but 69% of non-Swiss asset managers will likely support proposals raised by other shareholders

Question: [Left] The revised Swiss corporate law lowers the hurdles for shareholders at many companies to put proposals on AGM agendas. What development do you expect with respect to shareholder proposals going forward?

[Right] With the revised Swiss corporate law, the minimum shareholding-threshold for shareholders to put proposals on the AGM agenda is lowered. What is the likelihood that your organization will make use of shareholder proposals to shape a company's corporate governance and corporate social responsibility?

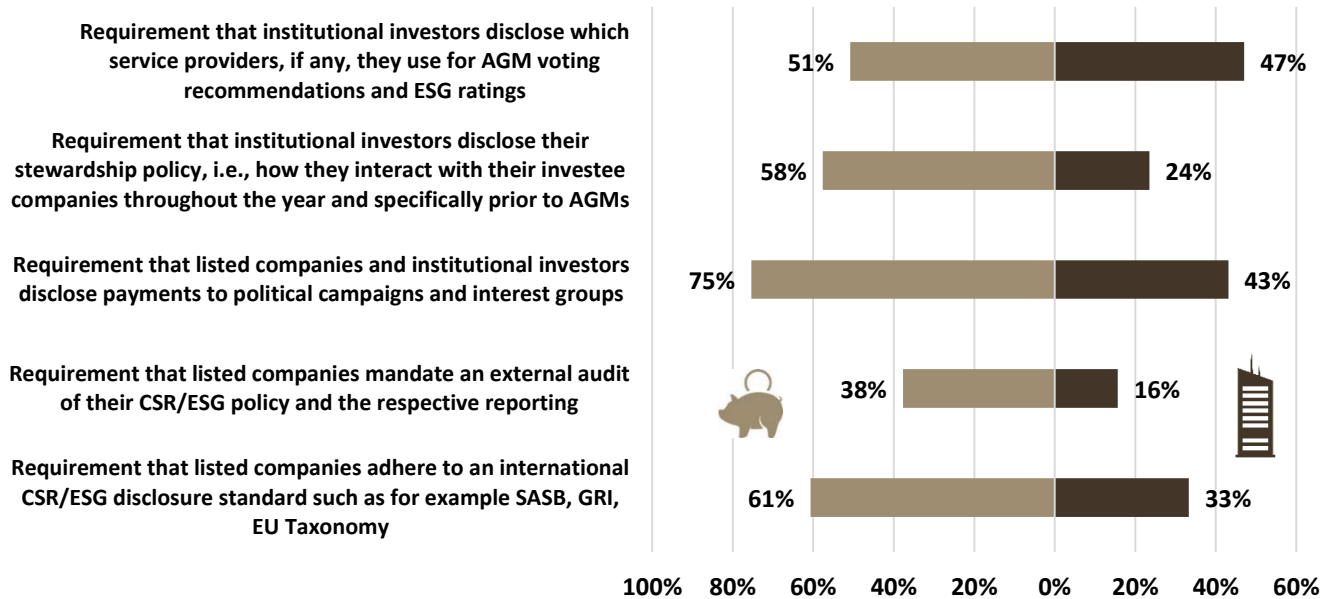


Regulation – Views on regulation

CSR regulation

Preference for CSR regulation measures

Survey 2020



- A majority of shareholders (75%) and notable fraction of issuers (43%) are looking for a mandatory disclosure of payments to political campaigns and interest groups
- Issuers reluctant to approve of any further CSR regulation, but 47% would welcome if institutional investors had to disclose their service providers, 51% of shareholders agree

Question: Various governments and regulators have or will in the near future implement some kind of CSR/ESG rules. Which of the following measures in this regard would you welcome in Switzerland? (Percentages summarize two answer options indicating (high) approval)

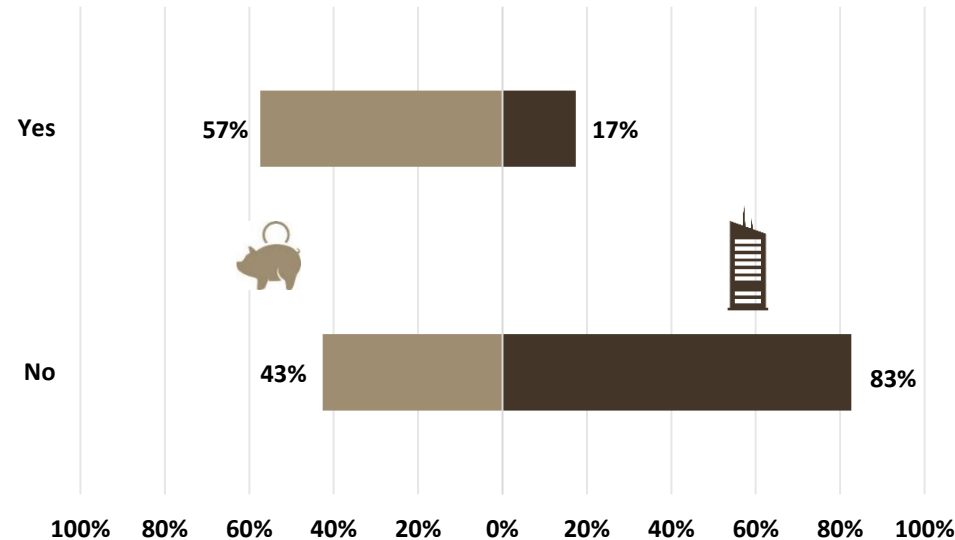


Regulation – Views on regulation

Shareholder approval of CSR reporting

Shareholder say-on-sustainability

Survey 2020



- Shareholders (57%), in particular non-Swiss ones (77%), would welcome an advisory AGM vote on a companies sustainability efforts
- Issuers clearly oppose such an advisory vote (83%)

Question: Should shareholders have a say on a company's CSR efforts, for example through an advisory vote at the AGM on the sustainability reporting?

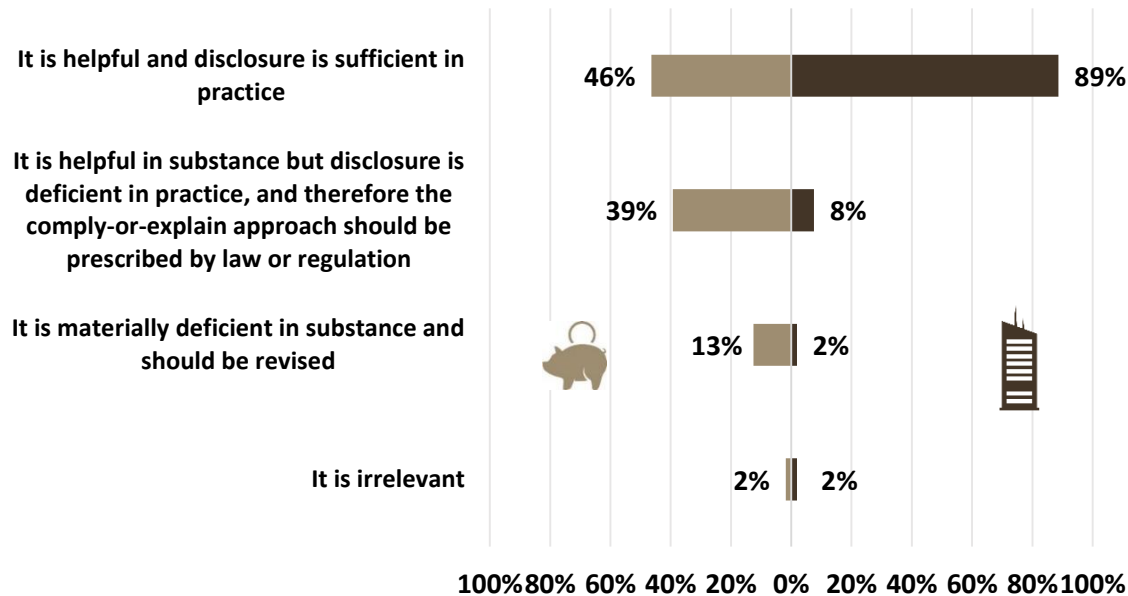


Regulation – Views on regulation

Swiss Code of Best Practice

Perception of Swiss Code of Best Practice in Corporate Governance

Survey 2020



- Large fraction of issuers (89%) considers Swiss Code of Best Practice in Corporate Governance helpful and sufficient
- Only 46% of shareholders agree, for 39% disclosure requirements are not sufficient

Question: The Swiss Code of Best Practice for Corporate Governance is a non-binding corporate governance framework that follows a comply-or-explain approach. How do you assess the Swiss Code?



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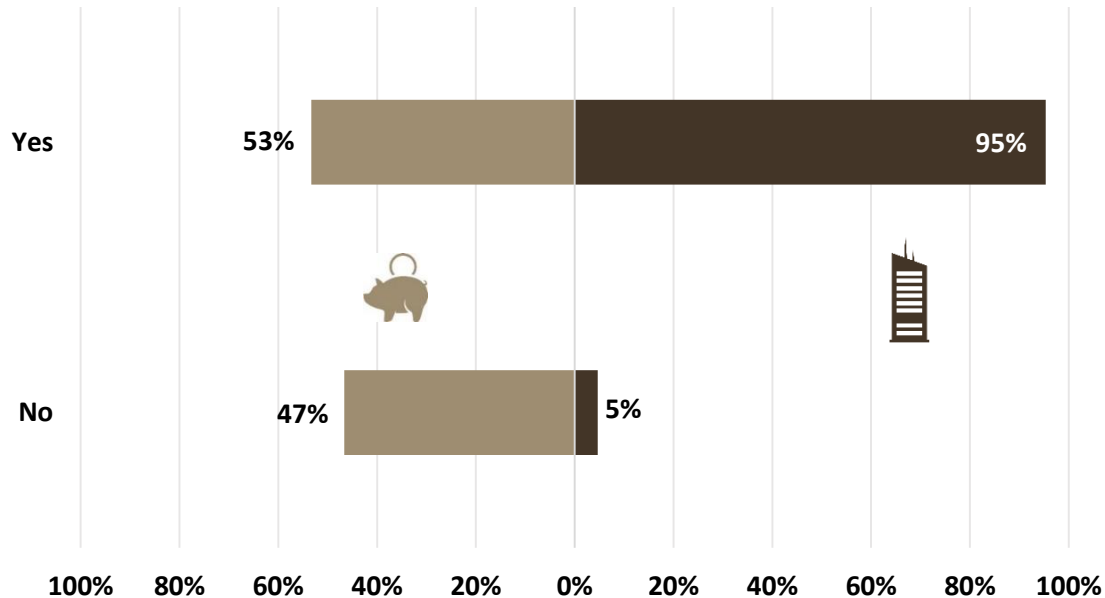


Audit - Towards another expectations gap

Independence

Are external auditors sufficiently independent?

Survey 2020



- Almost half of all shareholders (47%) and a majority of non-Swiss shareholders (88%) consider external auditors in Switzerland to not be sufficiently independent, arguably due to the sometimes long tenure of an audit company
- Yet nearly all issuers (95%) consider the external audit to be sufficiently independent

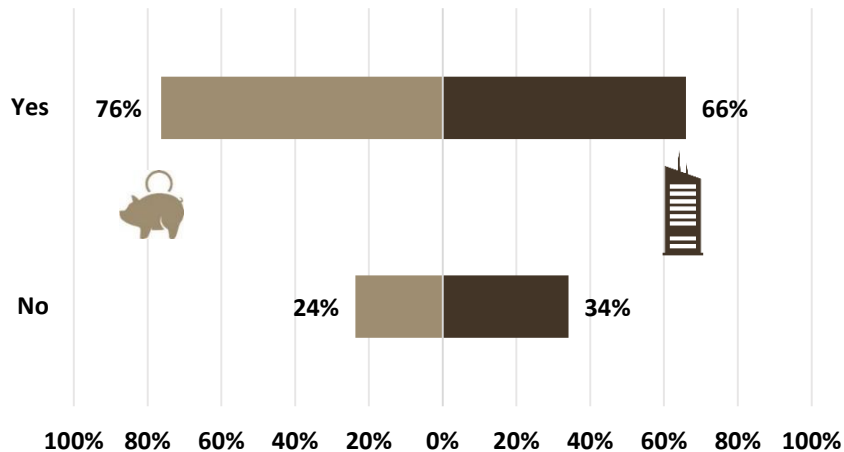
Question The governance of the external auditor, in particular with respect to its independence, has recently been a subject of increased attention. In your opinion, are external auditors in Switzerland acting sufficiently independent?



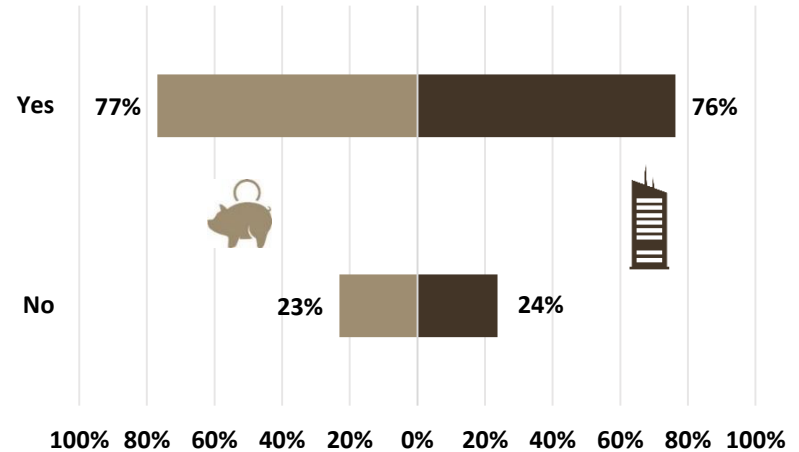
Audit - Towards another expectations gap

Fraud

Obligation for the external auditor to detect management fraud Survey 2020



Should auditors examine the use of Covid-19 loans Survey 2020



- Majority of market participants is of the opinion that the external audit's task also includes the detection of management fraud
- All market participants agree that the external audit should also examine the proper use of government-guaranteed Covid-19 bridge loans

Question: [left] In your opinion, is there an obligation for the statutory auditor to detect management fraud in the course of a financial audit? [right] : Do you assume that the auditors will examine the proper use of government-guaranteed COVID-19 bridge loans as part of the financial audit?



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